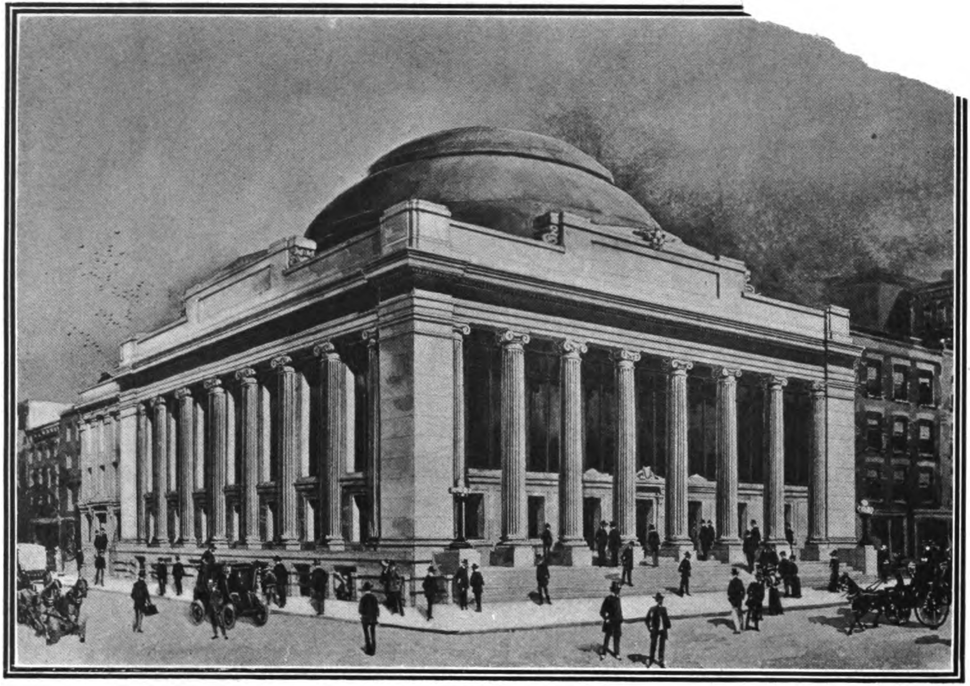
NELSON

CONSOLIDATED
STOCK EXCHANGE OF
NEW YORK



THE CONSOLIDATED STOCK EXCHANGE

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STOCK EXCHANG

OF NEW YORK

ITS HISTORY, ORGANIZATION, MACHINERY AND METHODS

BY

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"THE A B C OF STOCK SPECULATION," ETC.

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PREFACE

ALTHOUGH thirty-two years of age, and having experienced an interesting and useful career that has steadily grown in importance, a history and description of the Consolidated Stock Exchange in permanent and accessible form has never been published. There have been times when a clearer understanding of its history and its functions would have proved beneficial alike to the public and its members. This little volume is written with the object of giving a brief and clear account of the Consolidated Stock Exchange and its various departments, together with their relationship to the public.

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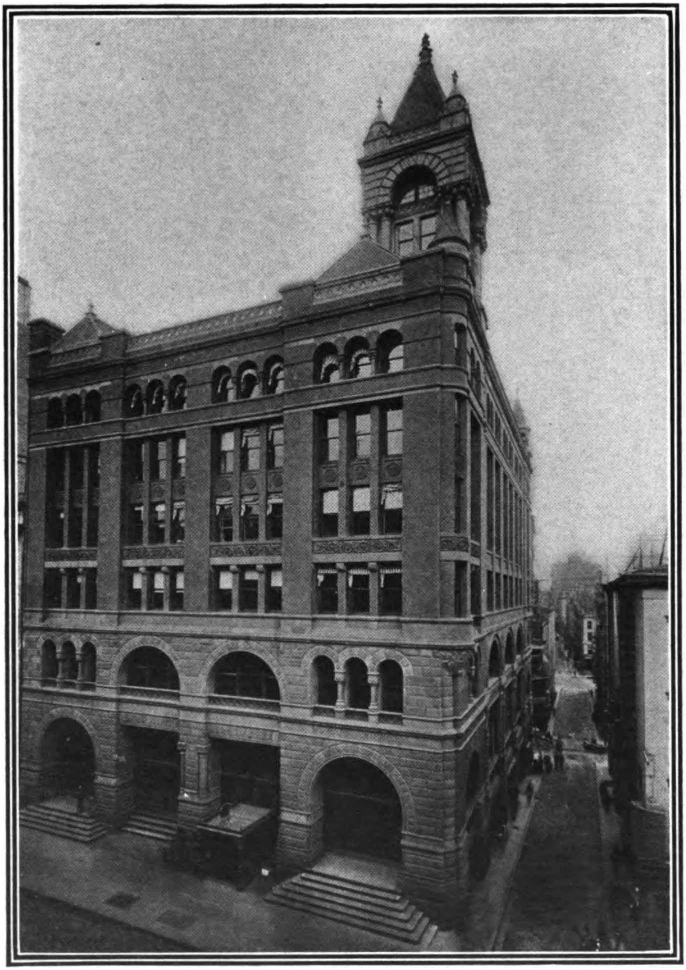


THE BROADWAY AND EXCHANGE PLACE EXCHANGE

THE CONSOLIDATED STOCK EXCHANGE OF NEW YORK

CHAPTER I

HISTORY OF THE CONSOLIDATED STOCK EXCHANGE

THIRTY-TWO years ago the Consolidated Stock and Petroleum Exchange of New York, now generally known as the "Consolidated Stock Exchange," had its origin under the name and title of the New York Mining Stock Exchange.

During the month of September, 1875, a call for a meeting was presented to a number of business men for signatures. Briefly, the call represented that the mining industries of the country had increased so rapidly and to such an extent that the time had arrived when New York should have a mining exchange of its own. The proposition to organize was accompanied by the explanation that large sums of Eastern capital were seeking investment through the San Francisco Mining Exchange and that investors would in all probability be prompt to avail themselves of exchange facilities in New York.

Late in September a meeting was held in an office on the first floor of the building then standing at 60 Broadway. The attendance numbered thirteen and the number included John Stanton, Jr., Joseph E. Gay, J. Wyman

Morris, L. V. De Foreest, R. H. Rickard, Charles O. Morris, Robert Courtney, F. G. Saltonstall, and E. W. Moss. After discussing the subject of organization it was decided to establish a mining exchange to be known as the "New York Mining Stock Exchange." That was the birth of the present exchange.

At noon, on the first day of November, 1875, the New York Mining Stock Exchange was opened for active business at its rooms, 24 Pine Street, with the following officers: President, John Stanton, Jr.; Treasurer, Joseph E. Gay; Secretary, J. Wyman Morris. The total membership was twenty-five.

The business of the Exchange gradually expanded and the expansion necessitated removal from the restricted quarters at 24 Pine Street to 32 Pine Street; thence to 18 Broad Street; to the "Bond Room" of the New York Stock Exchange, at 16 New Street. On July 26, 1877, it returned to 60 Broadway, on which occasion it absorbed the membership of the "American Mining and Stock Exchange," a rival organization that had been in existence about fifteen months.

Prior to 1886 the "Consolidated" absorbed the following competing organizations: —

The National Petroleum Exchange.

The Miscellaneous Security Board.

The American Mining and Stock Exchange.

The New York Petroleum Exchange and Stock Board.

The result of the mergers was the adoption of the amended title, — The Consolidated Stock and Petroleum Exchange of New York, which had a total membership of 2403. This membership has since been reduced almost one half.

The business of the Exchange in mining stocks and petroleum pipe-line certificates was conducted on a prosperous basis. In 1885 the sales of mining stocks amounted to 2,057,319 shares; in 1886 the sales increased to 6,509,481, and in 1887 to 10,659,711 shares. The trading in pipe-line certificates was as follows: 1883, 1,055,423,000 barrels; 1884, 3,211,374,000; 1885, 3,612,138,000; 1886, 2,286,765,000; 1887, 1,254,708,000. In addition to the business in mining stocks and pipe-line certificates, miscellaneous securities had been dealt in to the extent of 35,632,000 shares in 1885; 76,438,000 in 1886, and 44,349,000 shares in 1887.

In 1885, the membership having increased to 2403 — the largest membership of any exchange in the United States except the New York Produce Exchange — there arose a demand among the members for the organization of a department to deal in railroad stocks.

At this interesting period in the history of the institution nearly four hundred members of New York Stock Exchange firms held membership in the Consolidated. The two organizations were on terms of cordial friendship. Between the two exchanges a large speculative business was conducted, and it was not deemed wise to sacrifice this trade by an injudicious step. Negotiations were accordingly opened by the officers of the Consolidated with the proper authorities of the New York Stock Exchange.

Suggestions for a division of business were made and the Consolidated offered to confine its trading to fractional lots. Committees were appointed from time to time, only to meet and disagree. Finally all attempts at coöperation were abandoned and it was decided to formally establish a railroad stock department and transact business not only in fractional lots, but to accept any trade that could be obtained.

It was a radical step and it caused a very lively and heated debate in Wall Street at that time. The four hundred members and partners of members of the New York Stock Exchange suddenly withdrew in a formal expression of disapproval.

Looking backward at the history of the institution, and this period especially, one of the charter members says: "It is not to be denied that the secession of four hundred members was felt, but the Consolidated went on and proceeded to build up a secondary market in stocks. For five months in 1885 we dealt in 5,873,961 shares; in 1886, the sales were 41,675,170, and in 1887, 57,877,940 shares. It seems reasonable to believe now that had we not adopted the course we did, a new institution, and perhaps a less worthy one, would have been organized in this field. The Consolidated has always been willing to meet the views of the New York Stock Exchange more than half way and to give it every recognition that it demands. Some other institution might have been more aggressive and less conciliatory.

"It is worth remembering that in 1901 the volume of Wall Street business was so great that the machinery of the two exchanges was almost inadequate to handle it. A breakdown was narrowly avoided. Had there been no Consolidated in existence then to relieve the pressure it is rather odd to consider what might have happened.

"Our relationship to the New York Stock Exchange is and always will be an interesting subject to us, and we believe that we are a source of business to the older institution. Our commission houses develop business, and business originates on the floor of our Exchange. We do an arbitrage business with Philadelphia and Boston. When the overflow business from the Consolidated seeks the New York Stock Exchange it is in its most desirable form, *i.e.* orders given by financially responsible traders and firms for round amounts. As the business comes to us the older institution could not handle it, and a very considerable percentage of it might be regarded as an interference in handling the trade in larger amounts. Not many large stock exchange firms of to-day can give the bulk of their time and attention to fractional and one hundred share lot accounts.

"The trade as conducted to-day is very different from the trade as it was conducted say fifteen years ago. We think that we are a help and not a handicap to our big neighbor. We have won out in an anti-bucket shop struggle, and that was the hardest fight we ever had.

"In raising the standard of what may be described as the retail odd lot trade, as distinguished from the jobbing trade in odd lots in the primary market, we have performed a public service. We have made it legitimate trade and brought it to two markets, where it naturally and logically influences prices. There always must be an outlet for this trade, and for its decent development we are responsible.

"Then again a good many of our members and firms have graduated from the ranks of the Consolidated to go to the Stock Exchange. We have regretted to have them go, but we have been glad that they prospered and could go. It is a matter of pride to us to know that all of them were successful in their new and larger field. Not one made a failure, and that speaks well for the training they had on the Consolidated.

"After thirty-two years of business the Consolidated finds itself with a general balance of $100,000, a $400,000 Gratuity Fund Surplus, and $300,000 from the sale of its Broadway and Exchange Place lease. If you will pause to consider its disbursements in that period for general expenses and Gratuity Fund account, it must be obvious to any reasonable person that the institution is strongly established."

Two of the most interesting events in the history of the Exchange were the corner-stone laying ceremonies in 1887 and 1907.

On September 8, 1887, the corner stone of the Broadway and Exchange Place structure was laid. On that occasion, Charles G. Wilson, the president, said in part: "The first meeting of this Exchange as a regular organization was held on the 14th day of October, 1875, and it opened its doors for business at noon on the 1st day of November of the same year at 24 Pine Street with a membership roll of twenty-five.

"In March, 1876, it removed to 25 Nassau Street and from there to Broad Street and although it occupied a small room on the second floor, there seemed to be no immediate danger from overcrowding, as the average attendance including the chairman was only five. In the face of this, a rival organization, known as the American Mining and Stock Exchange, commenced business in the earlier part of 1876 with the avowed intention of dealing not only in mining stocks but in railroad stocks and bonds. A declaration of war was proclaimed, and, after a short but sharp fight, on the 21st day of July, 1877, a truce was declared and the New York Mining Stock Exchange returned to the present (1887) site, 60 Broadway, on the occasion of admitting into its fold the members of its late competitor.

"The mining business soon began to display unusual activity. Orders from the public began to come in, and there followed a period of active business.

"In 1883 the business in mining stocks became dull and depressed, and pipe-line certificates having entered the arena as a new speculative commodity, a department was established for dealing in the same.

"At this time there were two Petroleum Exchanges in this city dealing in pipe-line certificates, viz.: the New York Petroleum Exchange and the National Petroleum Exchange, and also an exchange called the Miscellaneous Security Board that dealt in all classes of miscellaneous securities.

"As consolidation seemed to be in the air, numerous meetings between the committees of the various exchanges were held, resulting, finally, in the admission to membership in this exchange of the members of the National Petroleum Exchange on the 16th day of March, 1883; of the Miscellaneous Security Board on the 16th day of November, 1883, and of the New York Petroleum Exchange and Stock Board on the 19th day of March, 1885."

Twenty years after, lacking a few months, January 31, 1907, Ogden D. Budd, the president of the Consolidated, addressed at Broad and Beaver streets a gathering upon the occasion of the second corner-stone laying in the history of the institution. He said in part: "An occasion like this comes but seldom in the life of an institution such as ours, and the right to stand here representing the Exchange is indeed a privilege.

"We are assembled to-day formally to inaugurate the building of our new business home. I suppose there is not one among us, whether he is an active member or one who seldom frequents the floor of the Exchange, who does not experience a feeling of sorrow that we are in a few short months to leave our present home.

"Nearly twenty years ago the corner stone of that building was laid with impressive ceremonies, and for practically a score of years we have met together within its walls day by day. However, the proposed change of location has been so long contemplated, and is attended with so many distinct advantages, that we are all looking forward eagerly to the occupancy of this structure now under way.

"After many months of careful thought and mature consideration we became the owner of this desirable and spacious plot. This occurred in August last, and we at once took steps to secure suitable designs for the building to be placed thereon. The result is already known to those of us who have seen the drawings and plans prepared by our architects, and general and universal satisfaction is expressed. So much as to our buildings, old and new, — the external part.

"Now, just a word as to the internal — the Exchange itself as an institution. A short introductory address is not the occasion for any academic definition of an exchange, nor for any elaboration of the principles and purposes that actuate all the exchanges of our country. These principles are well known and are summed up in one word — honor. Business on all exchanges is conducted solely on that basis — a word, a nod of the head, and the bargain is made and carried out.

"So it should be, and so it shall be, as our own and similar organizations meet daily in the busy cities of our land to conduct their transactions in the different commodities and the many classes of securities that represent the product, the wealth, and the industry of our country.

"My thoughts prompt me to refer to those of our number who have by their energy and labor contributed so largely to the successful consummation of our new building enterprise, and the successful arrangements for today's ceremonies. There is not time, however, and I must conclude with the single wish that, in all things, the 'Consolidated Exchange' may be strong, firm, and true — like the massive block that will so soon be well and truly placed in its position, and fittingly commemorate the birth of our new building."

An interesting coincidence at the two corner-stone ceremonies was that, in 1887, an address was delivered by the Hon. Algernon S. Sullivan of the firm of Sullivan & Cromwell; while, in 1907, Mr. William J. Curtis of the same firm, and also a member of the Exchange, delivered an address in which he sketched the history of the Exchange, saying among other things that: "This institution well illustrates in its history the theory of the survival of the fittest. . . .

"The Exchange also illustrates in its growth and development that of our city and country. Starting with only twenty-five members, it now has thirteen hundred on its rolls, the number having been largely reduced by the purchase of memberships by the Exchange itself. Its business has increased in larger proportion. Commencing with dealings in a few shares of mining stocks, the record for the year 1906 shows that 91,346,000 shares of stock were dealt in.

". . . You have laid the corner stone of a structure that will for many years furnish you a home in which you will all feel just pride. It is not, however, the material side of this business home that should invite your highest concern. Architects can design, builders can construct, and money can pay for the most elaborate and beautiful structures, but this alone will not fulfill your utmost desire or satisfy your highest ambition. The substructure, the very foundation of such an exchange, is a spirit of fair-dealing and business integrity.

"You have been successful in the past, and greater success awaits you — greater than even you now anticipate; but your future usefulness and influence will depend more upon the ideals that govern you than upon the outward evidences of your material prosperity.

"Upon this corner stone erect your structure of enduring materials and beautiful in design, but consecrate it here and now to the loftiest ideals of commercial and business honor."

PRESIDENTIAL ROLL FROM 1875 TO 1907

Year	President
1875	John Stanton
1876	John Stanton
1877	George B. Satterlee
1878	George B. Satterlee
1879	George B. Satterlee
1880	S. V. White
1881	S. V. White
1882	S. V. White
1883	Charles O. Morris
1884 to 1899	Charles G. Wilson
1900	Mortimer H. Wagar
1901	Mortimer H. Wagar
1902	Mortimer H. Wagar
1903	Lewis V. F. Randolph
1904	Lewis V. F. Randolph
1905	Lewis V. F. Randolph
1906	Ogden D. Budd

CHAPTER II

Homes of the Consolidated Stock Exchange

The early homes of the Consolidated Stock Exchange were in leased quarters, starting in Pine Street in 1875 and subsequently moving to other quarters in the same street; thence to Broad Street; to New Street, and finally returning to Broadway, where it made its home for a period of thirty years. The Broadway home won a warm place in the affections of its members, and one that will always awaken interesting memories.

In September, 1887, the foundation of the Broadway, Exchange Place, and New Street building was laid. The site was a favorable one for such an institution. The building was constructed on leased ground and architecturally it represented one of the last of the brick and stone business buildings which preceded the present era of steel-frame construction.

The building measured 90.11 feet on Broadway, 132.4 feet on Exchange Place, and 87.7 feet on New Street. The plans provided for a basement 15 feet high, opening upon a level with the sidewalk at the corner of Exchange Place and New Street, above which was the main story, or board room, and executive offices. This room had a height of 36 feet and surrounding the board room was an intermediate floor containing the executive and other offices.

Above the main floor were four stories of 11 feet height each, and arranged as brokerage offices. The main floor extended from Broadway to New Street, and it was always a well-ventilated and acceptable board room.

The main floor was about 2.6 feet above Broadway, and the entire building extended 96 feet above Broadway, with a height to the extreme top of a tower at the corner of Broadway and Exchange Place of 142 feet.

The exterior was mainly in brick, with stone freely used in the first story, while architecturally the style was Romanesque.

THE NEW BUILDING

In the summer of 1906 the Exchange was offered $300,000 for its leasehold rights to the ground at Broadway and Exchange Place.

President Budd and the Board of Governors took up the building proposition, considering the advisability of selling the rights on the old site and erecting a new home. An investigation showed that a saving of more than $35,000 a year could be effected for six years, and a much greater saving if the renewal rights to the leasehold were exercised; for the valuation of the property would, at the expiration of six years, be adjusted to new conditions.

Several plots in the Wall Street district were then considered, and it was finally decided to buy the plot at the southeast corner of Broad and Beaver streets; 12,000 square feet, at $870,000 or $72.50 per square foot. The Exchange was indeed fortunate in obtaining about the only available remaining site, so advantageously located in the heart of the Wall Street district. The approaches from Broad and Beaver streets are excellent and within one block are the Stock, Cotton, and Produce Exchanges.

Plans for a $300,000 building were then accepted from Clinton & Russell, architects. The classic style of architecture was followed. The Broad Street front shows a series of Ionic columns. The materials used in the exterior were limestone on a base of granite.

The board room is about 5 feet above the Broad Street level, steps leading up from the sidewalk all along that side of the building and affording access to three large entrances. The trading floor is about 95 x 82 feet — an area of approximately 7800 feet. Care was taken to provide an abundance of natural light which is an important consideration in the construction of all exchange rooms.

Practically the whole of the Broad Street front, back of the columns, is a continuous window, and the building is surmounted by a dome with a central skylight 30 feet in diameter.

Along the southerly wall of the board room are the telephones; on the easterly side a smoking room and rooms with telephone and telegraph facilities.

At the extreme easterly end of the Beaver Street front the building has been divided into four floors, providing quarters for the Clearing House, the executive and committee offices.

The basement is utilized in providing restaurant, coat room, and other facilities for the members.

CHAPTER III

MANAGEMENT OF THE CONSOLIDATED STOCK EXCHANGE

THE Consolidated Stock and Petroleum Exchange of New York is a voluntary association of brokers and others. Its business is limited to supplying facilities to its members for the purchase and sale of stocks, bonds, and other securities and commodities. It controls by stock ownership two subsidiary corporations, — the Clearing House Association and a Building Company, two institutions organized by the Exchange for the purpose of facilitating the business of its members. Both are incorporated under the laws of the State of New York.

The government and management of the Exchange is vested in a board of governors. This governing board is composed of the president, two vice presidents, treasurer, and twenty other members. Elections are held in May each year. The governing board has power to try all offenses under or against the laws of the association and its decision is final. It fixes the amounts of salaries of officers. This board also appoints the Exchange secretary and determines his salary.

The governing board is subdivided into twelve standing committees which carry on the administration of the Exchange's affairs, and they are as follows: —

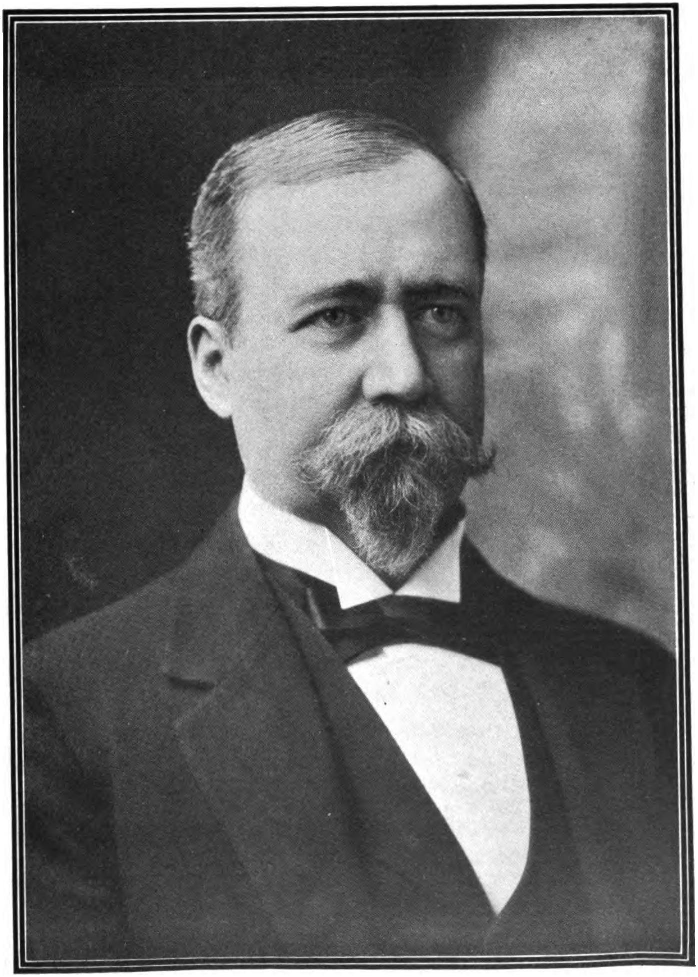
(1) Finance Committee.
(2) Committee on Membership.

(3) Committee on Arrangements.
(4) Committee on Mining Securities.
(5) Clearing Committee.
(6) Law Committee.
(7) Committee on Commissions.
(8) Committee on Securities.
(9) Complaint Committee.
(10) Committee on News, Statistics, and Trade Facilities.
(11) Committee on Grain.
(12) Committee on Ways and Means.

The president is, *ex-officio*, a member of all committees.

The membership initiation fee is now $500. The annual dues are $100 a year.

Article VI, Section II defines the duties of the Committee on Membership as follows: "The Committee on Membership shall have jurisdiction over all admissions to membership in the Association, excepting in the special cases provided for in Article VIII. All applications for membership must be addressed to the Chairman of the Committee and must be seconded by at least two members of the Association. The name of the applicant and the names of his indorsers shall be conspicuously posted in the business room of the Association, with a notice requesting the members to inform this Committee, in writing, of any objections they may have to the person named. Such communication shall be duly considered in committee and shall be held confidential. The Committee shall make diligent inquiry as to the qualifications of the applicant, and shall cite the applicant and his indorsers to appear before said committee at any time after the first



CHARLES GEORGE WILSON

posting of the applicant's name, as aforesaid. At the expiration of not less than ten business days from the first posting of the applicant's name, and not less than one week from the date of the examination of the applicant and his indorsers, the Committee shall proceed to ballot for the applicant. If, after due consideration of the application, six members of the Committee shall indicate by secret ballot their approval, the Chairman shall declare the said applicant duly elected a member of the Association, provided that, within ten business days after being elected, he shall sign the Constitution and pay the transfer or initiation fee and the contribution ($10) to the Gratuity Fund, provided in Article XXII, Section II; otherwise his election shall be null and void."

A set of by-laws comprise the general rules of the Exchange and govern the conduct of business on and off the floor.

Separate by-laws govern the business of the mining and grain departments.

The by-laws also provide for the clearing regulations for railroad and other securities and grain.

In the constitution, provision is made for the management of the Gratuity Fund which is described in a separate chapter.

Each fiscal year the Exchange prints an annual report which contains complete and comprehensive reports of the various committees, the reports of the president, treasurer, and that of the Clearing House and Building Associations, together with the names of the officers, committees, and executive staff.

CHAPTER IV

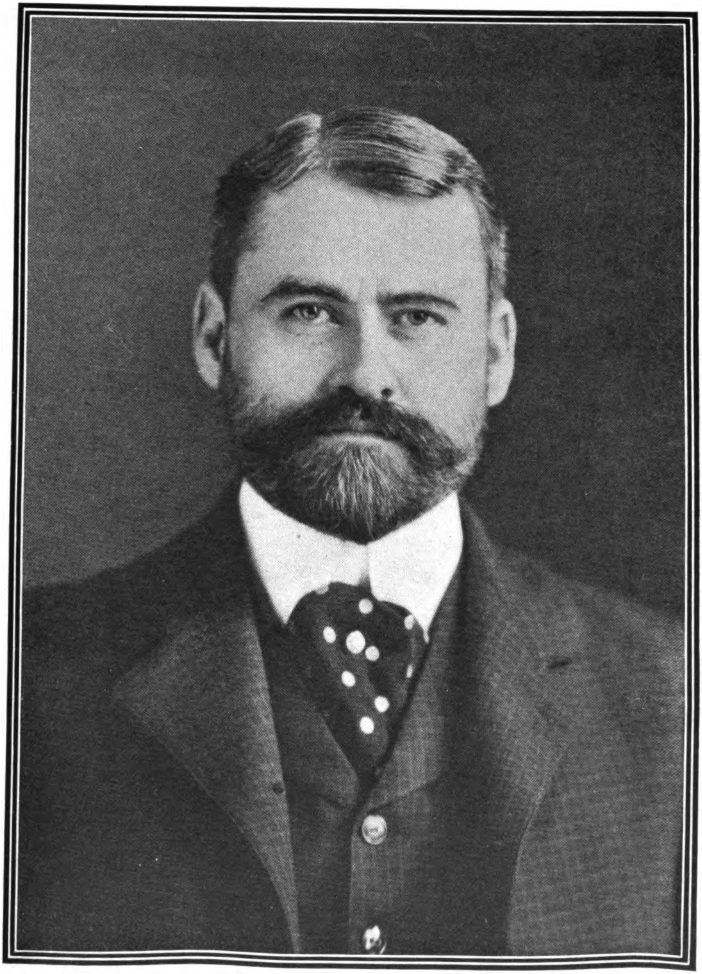
Officers of the Consolidated Stock Exchange

The first president of the Consolidated Stock Exchange was John Stanton, who up to the time of his decease, several years ago, was a conspicuous figure in the mining world and an authority on copper. He served for two terms — 1875 and 1876.

In 1877 he was succeeded by George B. Satterlee who served until 1880, when his successor was elected in the person of S. V. White.

In 1883 Charles O. Morris succeeded Mr. White and, after serving one year, he gave place to the late Charles George Wilson who filled the office for a period of fifteen years.

Charles George Wilson was born at Baltimore, Maryland, June 9, 1843. In the year 1863 he began the study of law, was admitted to the bar, and practiced in the city of Baltimore until 1876, when he came to New York. In 1878 he became a member of the American Mining Exchange, and his fellow-members recognized his executive ability in 1879 when they selected him to serve as Chairman of the Governing Committee, an appointment he held until 1882, in which year he was elected to fill the office of vice president of the National Petroleum Exchange.



MORTIMER H. WAGAR

In 1883 the Mining Stock Exchange and the National Petroleum Exchange consolidated, and in 1884 Mr. Wilson was elected president of the consolidated institution, an office he held up to 1900.

MORTIMER H. WAGAR

Having served fifteen years as president of the Exchange, Mr. Wilson was succeeded after a very interesting election by Mr. Mortimer H. Wagar. Mr. Wilson accepted his defeat gracefully, and Mr. Wagar entered upon his first year of work in 1900 with the support of a large majority of the members, having polled a vote of 504 to 287.

Mr. Wagar was born in Toledo in 1857. His first venture in business was at the age of fourteen, when he began as office boy and gradually worked his way up through the various departments of a grain and transportation business until at the age of eighteen he was admitted to partnership by his employer. Mr. Wagar became a member of the Toledo Board of Trade.

In 1878 he left Toledo for an extended vacation in Europe. Returning to New York, he identified himself with the Produce Exchange. In 1885 he resigned to engage in business on his own account, forming the grain brokerage firm of Wagar, Martin & Co. In 1890 this firm joined the Consolidated Exchange.

Mr. Wagar at the time of his election was a member of the Consolidated Stock Exchange, the Chicago Board of Trade, and the New York Produce Exchange.

Mr. Wagar instituted a successful administration, having for one of its objects the extermination of the bucket shops.

In 1901 Mr. Wagar was reëlected president of the Consolidated as the nominee of both the regular and independent tickets, and in 1902 he was again elected to succeed himself.

His three years of work as head of the institution were marked by great activity and progressive results of a character that advanced the Exchange's interests in almost every department. On retiring from the presidency to become an officer of the Consolidated National Bank, organized in Mr. Wagar's last year as president, Mr. Wagar was requested to fill the office of vice president of the Exchange, which he did for two years.

LEWIS V. F. RANDOLPH

Lewis V. F. Randolph was elected president of the Exchange in 1903. For many years he had been a prominent New York financier. Mr. Randolph for eleven years had served as treasurer and director of the Illinois Central Railroad Company.

He also acted as secretary to the trustees of the Samuel J. Tilden estate and for eight years he was president of the Atlantic Trust Company, an office from which he retired when the corporation was merged with the Metropolitan Trust Company.

Mr. Randolph was born in Somerville, New Jersey, on May 16, 1838. For many years he has been prominent in the social and political life of Plainfield.

His acceptance of the presidency was followed by his election in 1904 and 1905, when he determined to take a long rest and travel in Europe. Mr. Randolph finished

LEWIS V. F. RANDOLPH

his three years' work in the interests of the Consolidated Stock Exchange, having accomplished a number of definite and valuable improvements.

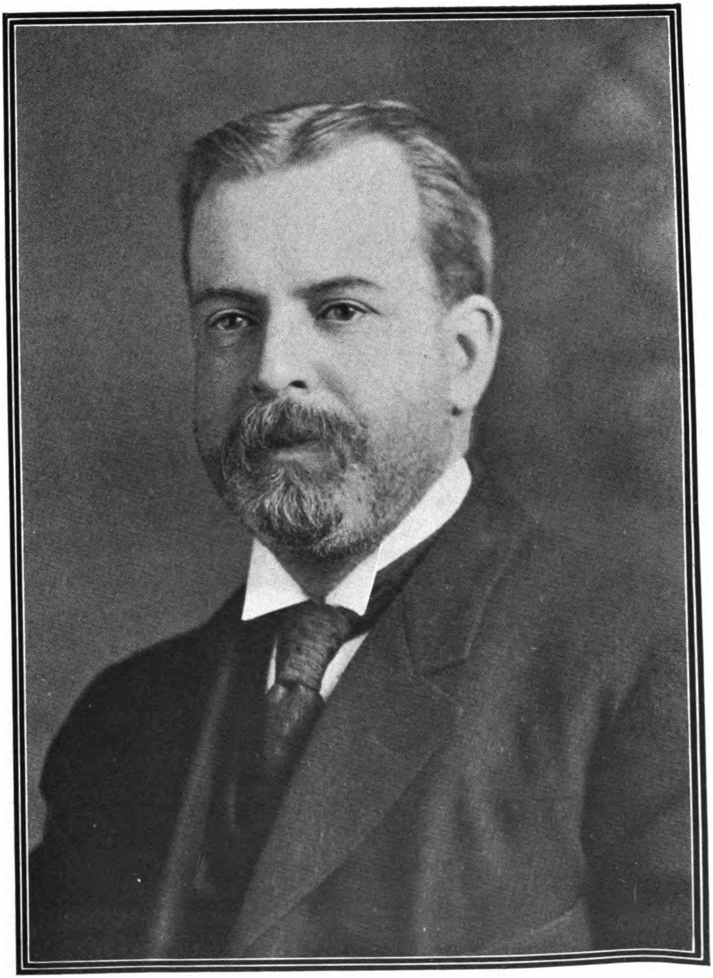
In his last report Mr. Randolph said: "I leave the associations and duties with which I have become familiar during these three years with mingled feelings of regret and gratitude. A year ago, I informed the nominating committee that I would only see the way to accept the presidency for another term; and I was then for the third time elected without opposition. At the first meeting of the Board, last June, I repeated what I said to the nominating committee. The time thus fixed for my retirement has arrived; and while I entertain the pleasing confidence that my successor will carry forward all good efforts and plans for the betterment of the institution, and will be abundantly supported by his colleagues in the governing board and by the floor at large, I cannot forbear an expression of regret on my own part at the severance of the delightful relations I have enjoyed in and with the Exchange and with its members."

OGDEN D. BUDD

To succeed Mr. Randolph the members of the Exchange selected one of their associates in business, Ogden D. Budd, who had been engaged in business as a commission stock broker for a number of years and who for a period of years had been a governor of the institution and one of its most active and valued committee workers along constructive lines.

Mr. Budd was born in New York City in 1861. He was graduated with honorable mention in 1881 at the College of the City of New York and adopted a business career. He became a member of the Consolidated Stock Exchange in 1885 and in 1900 became a member of the Board of Governors. Enjoying the confidence of the members and with a thorough knowledge of the needs and machinery of the Exchange, Mr. Budd entered upon his administration with enthusiasm and definite purposes.

His administration became a notable one in a few months after he was elected to office, for together with the Board of Governors, he took up the question of the acquisition of a new Exchange home and the site at Broad and Beaver streets. A plan was adopted and successfully prosecuted. This was one of the most important undertakings in the history of the Exchange, and by reason of the economies effected through wise and sound financing, it promises to prove of far-reaching benefit to the members and the institution.



OGDEN D. BUDD

CHAPTER V

Consolidated Stock Exchange Membership

The total membership of the Consolidated Exchange is approximately thirteen hundred. Of this number from one third to one half are actively engaged on the floor or in one of the other departments of the stock brokerage business. Other members have retired from active business, or they pursue other vocations and are inactive Exchange members. The inactive membership includes many professional men, men of affairs, and capitalists.

Among the men of distinction who count themselves members of the Consolidated Exchange are Judges Gildersleeve and Leventritt of the Supreme Court; Henry H. Rogers, John D. Archbold, and other men prominent in the councils of the Standard Oil organization; Anthony N. Brady, the traction leader; Stuart G. Nelson, vice president of the Seaboard National Bank; Dumont Clarke, president of the American Exchange National Bank; John E. Borne, president of the Colonial Trust Company; Julian D. Fairchild, president of the Kings County Trust Company; William Nelson Cromwell and William J. Curtis of Sullivan & Cromwell; Alfred H. Curtis, president of the National Bank of North America; William A. Nash, president of the Corn Exchange Bank; O. L. Richard, president of the State Bank; Casimir Tag, president of the German American Bank; W. A. Sherman, cashier of the Produce Exchange Bank; A. H. Calef, of the Missouri Pacific Railroad; Senator W. A. Clark, R. L. Edwards, J. W. Copman, Charles W. Morse, Vernon H. Brown, and R. A. Cheseborough.

All ages are represented in the membership and many states, including California. The membership franchise appeals especially to young men. Many members of the Consolidated have had successful careers and bought memberships on the New York Stock Exchange. These members are recognized as among the ablest brokers on the floor of the latter institution.

It is a matter of record that not one broker who has left the Consolidated Exchange for the New York Stock Exchange has been a failure; all have succeeded in the larger field. Undoubtedly no small part of their success has been due to the exceptional character of the training they have had on the floor of the Consolidated.

Recognizing the situation that the Consolidated has offered and does offer unusual advantages as a brokerage school and market place, not a few members of the New York Stock Exchange have bought memberships on the Consolidated for their sons. Nowhere in the United States can similar advantages be obtained for the amount of capital involved.

In recent years as New York Stock Exchange memberships approached the $100,000 mark, and owing to the numerical limitations of its membership and the large amount of capital required to enter the trade in keeping with modern Stock Exchange competition and conditions, Consolidated memberships have appealed more and more strongly to young men trained in Stock Exchange houses, who had reached the limit of office advancement; and to young men engaged in the brokerage trade in other cities than New York, who have been ambitious to embark, for their own account, in the New York brokerage trade. The result is that the floor census of the Consolidated Exchange approximates five hundred, and it is steadily growing.

There are scores of members of the Consolidated Exchange who would not sell their membership for from $10,000 to $25,000, for the very simple and satisfactory reason that in no other institution could they get the same market and the same facilities for the prices within the specified extremes.

"The Consolidated Stock Exchange has its limitations, of course," remarked a successful floor trader who represents a family that has been trading on the New York Stock Exchange and the Consolidated Stock Exchange for two generations, "but the market here is good enough for me. When I started here years ago, I traded in ten shares; to-day I trade in thousands. In some respects our market is limited; but that is true of every market on every exchange, no matter whether it be a primary market or where it may be located.

"Considering our relative size we enjoy a most excellent market that compares more than favorably with that of any Exchange in the country, with the exception of the New York Stock Exchange, and we are in no sense a rival of that institution. There will always be two exchanges in New York.

"The fact that we have lived so long and so well, through prosperous times and times of panic and depression, through evil report and good, means that we have a legitimate place to fill and that we fill it creditably, else we would not have survived the test of time and adverse periods of business. Our praises have never been sounded very loud and our shortcomings have been magnified and exaggerated, but we have lived despite our enemies, and we deserve recognition.

"I have watched young men come here, and in a few years accumulate moderate fortunes and then seek a wider sphere for their activities. That is as it should be. If a man can make more money elsewhere and it is his inclination, it is his privilege to go; but I, for one, have never felt that I would care to leave this institution. I am a believer in it and in its future.

"The Consolidated Stock Exchange has produced as many competent stock brokers as any Exchange in the United States."

Another broker member said: "'Would I sell my membership for $10,000?'

"No; certainly not, if I could not duplicate it. I like and enjoy the business of stock trading. I make here an income of from $5000 to $7500. My hours of work are from 10 A.M. to 3 P.M. My expenses are small. I like long vacations and I take them.

"Before coming here I was engaged in a mercantile business, where the day was never ended and the losses from bad accounts were very heavy. This is a welcome relief."

A university man who is now the head of one of the leading Consolidated Stock Exchange commission houses was asked for his experience and he said: "When I left college, I determined to try a business career and I always had a liking for Wall Street and finance. I had no difficulty in securing a clerkship in a New York Stock Exchange commission house. I stayed there a couple of years and learned the business, but it did not take me that long to realize that that clerkship was to be mine for life.

"Ahead of me, lined up and waiting for the junior partnership vacancies, were members' sons, and millionaires' sons, and bank and railroad presidents' sons, to say nothing of the rest of us.

"Fortunately I had some capital. I bought a membership in this institution. It took me a year to learn how to trade and then after several years of trading, we embarked in the commission trade, and are doing quite well, thank you.

"'What do I think of our future — of the future of the Exchange?' It is most promising. The day is approaching when there will be livelier competition for our memberships.

"It is my view that there are scores of young men engaged in the brokerage business in New York, Boston, Philadelphia, Chicago, and other cities who have only to be acquainted with the relative advantages of this and other exchanges to want to avail themselves of the opportunities that are open on our floor."

Another member discussing the Consolidated and its opportunities said: "Nowadays it is a rather difficult thing for a young man to successfully engage in business for himself on his own responsibility, or to acquire a partnership. If he is with a corporation, he is often tied down hard and fast, a small part of a very big machine. Competition was never swifter, never more perfectly organized, and the capital requirements are far and away beyond the resources of most young men. Nowadays new firms starting in business in commercial lines expect to lose money the first year, and I heard the other day of a concern that does not expect to make a dollar for three years, when the expectation is, that it will be a big money maker.

"These are some of the reasons why I am here. Perhaps I would like a more constructive business than that of a stock broker if I could do as well financially as I do as a broker. But I have the satisfaction of knowing that I am in business for myself; my hours are short enough for me to enjoy my home and my family in the country. To be one's own employer means more than money to me.

"Undoubtedly for the man with health, initiative, and pluck, this institution offers opportunities that cannot be duplicated elsewhere. The opportunities are for traders and commission men. I have seen many men come and go in Wall Street; but I have noticed that the conservative men who start slowly and economically, who do not dissipate nor overtrade, win out almost always, and there is more than a living in it. I can name one hundred men who have started with little and won out against what seemed like big odds. But they were brave and had brains and knew that they had to succeed. Necessity won the struggle.

"Our seats sell at absurdly low prices when the privileges of membership are considered. In a few years at the most I expect to see a radical change. We have facilities for a larger commission trade and with its development and growth along the lines laid down by the present and preceding administrations of the Exchange, we can, as an institution regard the future as likely to deal with us in a way that will be favorable.

"By reason of the peculiar relationship we occupy to the general securities' market, we have had to make many experiments and have had a career which has been rich in experience. Unless we had been inherently strong we could not have lived.

"We have, I believe, profited by our experience. If we make any errors nowadays, they are on the side of conservatism, and as the institution is better understood it is quite certain that we will enjoy even greater public favor than we do to-day, and after all we get our share of business."

An old member, about to retire, having accumulated a competency, was asked for his opinion of Consolidated memberships. His reply was: "For a man who likes and understands the business a membership in this institution is one of the best investments in the whole range of exchange memberships. There is nothing like it in the country. The men who come here and fail, do so not for lack of opportunity, but in spite of it. The opportunities here cannot be duplicated elsewhere with the same capital

— of that I am sure. The man with common sense, moderate or abundant capital, good principles and brains, can succeed; but the man who does not work hard, who is not shrewd, who has been a failure in some other line, and who, perhaps, tries to make $1 do the work of $10 won't do any better here than he will anywhere else. My own experience has been highly satisfactory."

CHAPTER VI

The Gratuity Fund

In December, 1879, the members of the Consolidated Exchange established a Gratuity Fund, to provide a system of fraternal insurance, the beneficiaries to be the families of deceased members. The management and distribution of this fund is in charge of a Board of Trustees who are known as the "Trustees of the Gratuity Fund." They include the president and treasurer of the association and ten other trustees who are members of the association and participants in the fund. The trustees hold office for five years and two are elected annually.

In the 1906 report of the trustees of the Gratuity Fund, there was a comprehensive statement of its present status and operation.

The number of Exchange members contributing to the fund was approximately thirteen hundred. Under the provisions of Section V, Article XXII of the constitution the surplus is maintained at $400,000. The excess as it accumulates is used in paying death benefits in lieu of assessing the surviving members or is used in buying in memberships and retiring them, thus reducing the sum total of the Gratuity Fund risk. The surplus fund is deposited in various Trust Companies at interest.

During the fiscal year ending May 31, 1906, the Fund paid to the heirs of 30 members the sum of $240,000 or $8000 each. Since the Fund was established, up to this date, the total sum of $5,496,978.50 had been paid to the beneficiaries of 722 deceased members.

In 1892 when the constitution was amended, authorizing the purchasing and retiring of memberships, the ultimate risk of the Gratuity Fund was on 2313 members or a liability of $17,948,000; the risk in 1906 had been reduced to $8,864,625, or a reduction in risk to that date of $9,083,375.

During the fiscal year 1906 the Board of Governors of the Exchange, under constitutional authorization, purchased and retired 75 memberships at a cost of $42,304.50. Of that number 22 were paid from the general fund at $11,050 and 53 from the Gratuity Fund surplus at $31,254.50. Of the seats-purchased: 21 were under 40 years of age; 12 were between 40 and 45; 6 were between 45 and 50; 3 were between 50 and 55; 4 were between 55 and 60, and 10 were above 60 years of age, and 3 were those in the ill-health class. The reduction of Gratuity risk of those 59 seats amounted to $365,125. In addition to the above, 16 other seats were purchased.

In three years $713,625 of Gratuity obligation was cancelled without impairing the reserve or surplus of the Gratuity Fund, nor seriously depleting the general fund of the Exchange, which is in a sound and healthy condition.

The affairs of the Fund have been administered in a way that is highly creditable to the trustees and the Exchange, and the gradual but steady reduction in insurance liability should doubtless exert a future influence that will be beneficial to the quotations for Consolidated memberships.

CHAPTER VII

VOLUME OF BUSINESS AND MEMBERSHIP PRICES

THE progress of the Consolidated Stock Exchange in recent years has been remarkably steady. For the year ending June 1, 1903—expiration of the Exchange's fiscal year — the total transactions were 106,000,000 shares, which compared with 91,000,000 shares in 1902. During 1905 the records of the Consolidated clearing house exhibited a total of 137,019,910 shares cleared as compared with 136,118,720 shares for the fiscal year ending in June, 1906. The interesting fact about these figures is that they show that on the Consolidated Stock Exchange there is transacted a larger business in stocks than on any stock exchange in the country with one exception, and that is the New York Stock Exchange, which is the primary market.

In view, therefore, of the fact that the Consolidated Stock Exchange affords greater facilities in the form of a broader market than any of the minor exchanges, it is not out of place to consider the statement of its members that its memberships are selling at abnormally low prices.

"When," says a member, "you remember the character and size of the market here and compare it with those of the Stock Exchanges of Boston, Philadelphia, Cleveland, Pittsburg, and Chicago, either their memberships are selling at prices that are too high or ours are selling too low. Consolidated Exchange memberships at $1000 are probably the greatest bargain ever obtainable in exchange memberships, provided a man wishes to engage in the business of stock trading or commission brokerage. When the situation is better understood, the memberships will be in better demand and I believe that when they sell at $5000 or $10,000 they will then be more attractive to many men than they are at the lower figures. I do not know where they can be duplicated at anything like the same prices. The expenses of membership are comparatively low and the business is always here. In cities like Boston and Chicago when the markets are very dull there is not enough business to go around. Here there is pretty nearly always something doing, and those who look for it get their share."

In 1906 Consolidated Exchange seats sold at prices varying from $800 to $1200. In the same year other exchange membership quotations in the United States and Canada included the following: Baltimore Stock Exchange, $6400; Boston Stock Exchange, $35,000; Chicago Stock Exchange, $1100; Cincinnati Stock Exchange, $2750; Cleveland Stock Exchange, $5500; Colorado Springs Exchange, $500; Denver Stock Exchange, $150; Los Angeles Stock Exchange, $2000; Montreal Stock Exchange, $24,000; New Orleans Stock Exchange, $10,650; Philadelphia Stock Exchange, $12,000; Pittsburg Stock Exchange, $8100; St. Louis Stock Exchange, $7200; and Toronto Stock Exchange, $17,500.

And yet not one exchange with which comparison is made can equal the volume of transactions recorded on the Consolidated. Those seeking an exchange connection and the best secondary stock market in the country can profitably investigate the Consolidated situation and its methods of business. This applies not only to New Yorkers, but to those engaged in the stock business in any city in the country, and to others who wish to engage in the trade.

Several years ago the management of the Consolidated decided that it would be wise to purchase and retire a number of Exchange memberships, as there was a considerable inactive membership list and it was believed that the policy of reduction would strengthen the smaller number. During 1906, in pursuance of this plan, seventy-nine memberships were bought and cancelled by the Exchange. The membership is now approximately thirteen hundred and of that number there is a larger active floor membership to-day than there has ever been in the history of the Exchange.

During the year 1906 sixty new and active members were admitted, each man receiving the vote of a Membership Committee of nine that has become exacting (but not unreasonable) in its requirements. There was also a substantial and gratifying increase in the organization of commission firms.

With the removal of the Consolidated to its new building it is to be expected that there will be a keener appreciation on the part of the public of the institution's facilities and merits.

In recent years while waging a bitterly contested and finally successful war against the bucket-shop evil the Consolidated was open to misrepresentation and misunderstanding, owing to the fact that those outside the business are not familiar with its machinery. It was a hard fight, and one that only could have been carried on by a sincere and courageous desire to correct abuses then existing. A less sturdy and firmly established institution in all probability would not have succeeded, but the fight was capably and honestly made and for those reasons it was won.

CHAPTER VIII

Consolidated Stock Exchange Commission Trade

As of all exchanges, the commission trade of the Consolidated Exchange is its most important department; for through it are maintained its relations with the public. Without the good will of the public (which the Consolidated enjoys) there is no especial call for an exchange.

There are from fifty to one hundred commission firms on the Consolidated Exchange. Some of them have been in business for twenty-five years and enjoy a trade that is national in its scope.

A commission business can be conducted by

(1) One person, or

(2) Two or more persons. Generally the stock commission trade is regarded as a two-man business, although individuals have been and are very successful in the field, as are three, four, or even five men firms. The reason that the stock commission trade is usually referred to as a two-man business is that experience teaches that one man is necessary for the office (the office man) and the other for the Exchange, the latter usually being designated as the "floor man." The office man is often an accountant, expert in stock brokerage bookkeeping, and the floor man is the broker who executes the orders intrusted by clients with the firm.

It frequently occurs that two partners are necessary to conduct the office end of a commission firm's business, in which case, one partner devotes his time to the counting department and the second partner to the customers' department. And it may be necessary to employ additional floor brokers, also a curb broker, and possibly a broker for the bond or investment department.

There are three types of commission firms, viz.:—

(1) The local house catering for city or office trade. One office only is maintained.

(2) The local and mail-order house. Here the business is made up of local trade and out-of-town trade conducted by mail, the public telephone, and public telegraph service.

(3) The wire house which conducts branch offices in New York and other cities and has its home office in the Wall Street district.

It is obvious that there is a considerable range between the small commission house and the one equipped with wires and numerous branch offices. In the one instance it is conceivable that a very small business might be conducted with $10,000 capital; in the other a half million capital may be required to handle the trade. To conduct a moderate commission business calls for a capital of $25,000 to $100,000; the more capital, the easier it is to handle the business, and it follows too that the greater the capital, the greater the credit.

The commission broker works for a fee that would be considered small in any other field. The real estate broker exacts a fee of from 1 to 5 per cent on sales; the investment broker gets at least $\frac{1}{4}$ of 1 per cent and the Consolidated Exchange broker charges $\frac{1}{8}$ of 1 per cent each way on 10 to 50 shares and $\frac{1}{16}$ on 50 shares or more.

It is interesting to examine the nature of the service rendered. Suppose an investor calls at the office of a Consolidated Exchange firm and buys 10 shares of St. Paul at 175. He deposits his check for the amount required. The broker buys the stock, and incidentally learns that his office is receiving 50 shares of St. Paul, on balance, the next day. If the stock comes in in a 50 share certificate, in order to deliver to the investor who bought 10 shares his certificate of stock, it is necessary for the broker to send the 50 share stock certificate to the Chicago, Milwaukee and St. Paul transfer office and split it up into fractional lots.

While the stock is in transfer, the amount of capital involved in the certificate is tied up. The work calls for what to the layman is complicated bookkeeping, and much messenger service in the receipt and delivery of the stock. After the stock is delivered to the buyer the broker finds that for the $1750 transaction, which has, owing to the exigencies of the business, involved a much larger amount, he is entitled to charge for his services the sum of $1.25, truly a trifling sum for the service rendered.

Assume, again, that a buyer calls on his Consolidated broker and buys 100 shares of St. Paul on a 10 per cent margin. The stock is bought at 175, and is to be carried indefinitely. It then becomes necessary for the broker to receive the stock. The customer has deposited $1000 or ten point margin. The stock is received and the broker pays for it with a check for $17,500, which represents $16,500 of his own capital and $1000 belonging to the customer. The broker takes the stock to the bank and borrows 75 or 80 per cent, thus releasing 85 or 90 per cent of his own capital, it is true; but the broker has now assumed a large responsibility for a small fee.

The commission broker may carry the stock for a day, a week, or a year. The bank may recall its loan, and the loan may in fact be called and re-made a dozen times. Finally the stock is sold when the broker collects $12.50 or $25.00, as the case may be, for his fee. Quite naturally he feels that more than a fair measure of service has been rendered for the amount of his compensation.

It is also true, and not to be overlooked, that some commissions are easily earned, as, for instance, when a man trades often and has an active account; but such accounts are difficult to handle at times when excitement runs high. Careful figuring, nice judgment, and a perfect office and floor organization are necessary to keep the ship sailing on an even keel.

There is an especially good market on the Consolidated Exchange for the active stocks, and any amount can be traded in from 10 to 1000 shares.

The odd lot market in such stocks as Union Pacific, Reading, United States Steel common, Amalgamated Copper, and others is very broad, and trading is conducted in 10 share lots very close to the 100 share lot price.

In the primary market the odd lot trading is controlled by dealers as distinguished from commission brokers.

In an active stock the commission broker, having an order in the primary market, proceeds to the dealer who will sell him 10 shares $\frac{1}{8}$ or $\frac{1}{4}$ of 1 per cent away from the last 100 share price. If the order is to sell, the dealer will only buy on the basis of $\frac{1}{8}$ or $\frac{1}{4}$ under the last 100 share price. Add to the $\frac{1}{8}$ or $\frac{1}{4}$ exacted by the dealer for his service in trading the $\frac{1}{4}$ commission of the broker and the 10 share trader in the primary market has bought or sold under conditions that are rarely understood until the experiment is made. In inactive and investment stocks the dealers operate on a larger theory of profit than $\frac{1}{8}$ or $\frac{1}{4}$ of 1 per cent.

As illustrating the nature of the Consolidated's market, Dow, Jones & Co., news bulletin No. 52 of Thursday, October 11, 1906, says under the following heading: —

"Stock Market.

"During the first hour the market was dull and active by turns. There were intermittent outbursts of violent bidding up of a few issues. It looked as if a procession from one post to another was being held on the floor of the Stock Exchange, stops being made long enough to bid up the price of each stock in turn.

"United States Steel common reached 49$\frac{7}{8}$, the highest price so far touched on this advance. Only 100 shares, however, came out at that figure. As a matter of fact there was more stock sold at that price on the Consolidated Exchange than on the Stock Exchange, and on the so-called 'Little Board' the price touched 50 for 100 shares."

It has often been observed by Consolidated Exchange brokers, at times when stocks reach a turning point, high or low, on the New York Stock Exchange, that the volume of trading will be larger on the Little than on the Big Board.

While this does not change the never disputed fact that the New York Stock Exchange is the primary market for stocks and bonds in the United States, with all that that statement implies, the Consolidated Exchange membership holds that it is entitled to wider and more generous recognition of the fact that they have under the roof of their institution a better and broader market than they are generally credited with having.

Consolidated commission brokers, trading in odd lots for $\frac{1}{8}$ commission, can usually trade on the 100 share price; and in addition to the usual trade in 100 share and larger lots they can also execute orders in investment stocks and bonds (including government and municipal securities) in the outside market, in mining stocks, and in curb stocks and bonds, for cash.

The Consolidated Stock Exchange also offers important and valuable trading advantages to: (1) large traders, (2) out-of-town banks and correspondents, and (3) the operators of pools in particular stocks.

Large traders having accounts with established brokerage houses can make substantial savings in commissions by purchasing a Consolidated membership and then trading through a fellow-member in the commission business for a $\frac{1}{32}$ commission. This applies particularly to active traders who trade in the active stocks. A number of traders having adopted this method have discovered that the saving in commissions amounts to a handsome income in itself.

Out-of-town banks and brokerage correspondents, by securing representation on the Consolidated, can, in the first place, effect a saving in commission expenses; and in the second, brokerage correspondents can obtain trading facilities on a "split-commission" basis. The opportunities in this direction are worthy of the investigation of out-of-town business men interested in the securities' trade.

More than one manipulator of stocks in the primary market has discovered that the Consolidated market affords facilities for the acquisition and marketing of lines of stocks. This has been true of Reading, Brooklyn Rapid Transit, Union Pacific, Copper, and Sugar in their periods of speculative activity. As the Consolidated opportunities become better known it is probable that there will be a disposition on the part of the leading operators to avail themselves on a larger basis of this market.

CHAPTER IX

THE MINING DEPARTMENT

THE Consolidated Stock Exchange has very complete facilities for dealing in mining securities. Mining companies complying with its regulations can be regularly listed. Years ago, when the speculation in the mines of the Comstock Lode was at its height, the bulk of the Eastern business was transacted on the floor of the Consolidated Exchange. Recently there has been a revival of interest in Nevada and Canadian stocks, and while much of the business in mining stocks is transacted outside the walls of any exchange, there is reason to believe that it will gradually seek the more conventional market to be had on the various exchanges, where the public receives greater protection and is safeguarded in important particulars. There has been a substantial improvement in the volume of mining transactions in recent years and the mining brokers of the Consolidated look for its continuance. In 1904–1905 the total sales aggregated 1,667,775 shares; in 1905–1906 the total was 2,373,889 shares, a very substantial increase. The owners and promoters of reputable mining corporations have been invited to investigate and avail themselves of the Consolidated market and facilities.

CHAPTER X

The Grain Department

The Consolidated Stock Exchange has a department for dealing in grain and clearing-house facilities for handling contracts. At times a large business has been transacted in wheat. The wheat clearances for 1904–1905 were 479,675,000 bushels; for 1905–1906, 385,877,000 bushels.

The tendency of the speculative grain business to contract in recent years has been due to widely recognized causes not having their origin in New York. Chicago, the leading grain market of the country, has experienced, relatively, even a greater shrinkage in the total transactions.

One of the chief causes of the decline in grain speculation has been the increased public interest in stock speculation and investment. Many large Western firms which a few years ago were leaders of the grain trade are now established in Wall Street, where they have become conspicuous members of the stock brokerage trade and are an important factor in the making of the primary market.

It is pretty well established that public interest in speculation shifts from stocks to cotton; from cotton to grain; and from grain to other commodities or minerals or particular stocks in no regular sequence. Renewed activity in grain may be experienced this year or next, or it may be deferred for several years; but when it comes, the Consolidated will get its share of trade.

CHAPTER XI

The Consolidated Stock Exchange Clearing House

Mr. James G. Cannon, author of the only book in this country that deals with the subject of Clearing Houses, discusses the clearing houses of banks exclusively; the clearing houses of exchanges and boards of trade in the securities' field and those of commodities are not described or explained.

The bankers' clearing house is the parent of the exchange and board of trade clearing house. The fundamental principles of organization and method are similar. To understand the exchange clearing house and its supplementary relation to the bank clearing house we may appropriately therefore turn to Mr. Cannon's definition of the clearing house.

He says: "What is a clearing house?" The Supreme Court of Pennsylvania has defined it thus: It is an ingenious device to simplify and facilitate the work of the banks in reaching an adjustment and payment of the daily balances due to and from each other at one time and in one place on each day. In practical operation it is a place where all the representatives of the banks in a given city meet, and, under the supervision of a competent committee or officer selected by the associated banks, settle their accounts with each other and make or receive payment of balances and so 'clear' the transactions of the day for which the settlement is made.

"But," adds Mr. Cannon, "we must go farther than this, for though originally designed as a labor-saving device, the clearing house has expanded far beyond those limits, until it has become a medium for united action among the banks in ways that did not exist even in the imagination of those who were instrumental in its inception. A clearing house, therefore, may be defined as a device to simplify and facilitate the daily exchanges of items and settlement of balances among the banks, and a medium for united action upon all questions affecting their mutual welfare.

"The clearing houses in the United States may be divided into two classes, the sole function of the first of which consists in clearing notes, drafts, checks, bills of exchange, and whatever else may be agreed upon; and the second of which, in addition to exercising the functions of the class just mentioned, prescribes rules and regulations for the control of its members in various matters, such as the fixing of uniform rates of exchange, interest charges, collections, etc.

"Clearing houses may also be divided into two classes with reference to the funds used in the settlement of balances: First, those clearing houses which make their settlements entirely on a cash basis, or as stated in the decision of the Supreme Court above referred to, 'by such form of acknowledgment or certificate as the associated banks may agree to use in their dealings with each other as the equivalent or representative of cash;' and, second, those clearing houses which make their settlement by checks or drafts on large financial centers."

It is now easy to understand that the Consolidated Stock Exchange clearing house is an adaptation of the bank clearing house, and it is utilized for the adjustment and settlement of contracts for stock securities and grain. The idea of a stock exchange clearing house was first adopted by the London Stock Exchange. In that institution it is the custom to trade for what is designated as "the account," with a fortnightly adjustment of balances.

In this country the distinction of first having adopted the clearing-house idea lies between the Philadelphia Stock Exchange and the Consolidated Stock Exchange of New York. The London idea was adopted with modifications in 1886, the Consolidated Stock Exchange determining upon a weekly settlement and subsequently changing it to a semi-weekly settlement. In 1892 the New York Stock Exchange investigated the clearing-house question and organized a clearing house which is conducted upon the basis of a daily settlement.

The Consolidated Stock Exchange Clearing House Association (incorporated) is managed by a Board of Directors, all of whom are members of the Exchange. Monetary balances are settled daily; stock balances are delivered semi-weekly.

Members of the Exchange are admitted to clear in their own names. A trader can buy and sell 1000 shares of stock for the remarkably small clearing-house charge of

50 cents — a fact worthy of consideration by professional traders. The clearing house supplies without charge clearing-house sheets, comparison tickets and drafts which comprise the official stationery.

The clearing-house sheet of a broker is a record of stocks bought and sold; to be received or delivered on a single day. Each transaction is compared with "receive" and "deliver" tickets or comparison slips. These comparisons must be made before 9:45 o'clock on the day following the transaction. As each sheet contains in all probability a considerable number of separate transactions, the transactions in each stock are grouped together. All the purchases having been entered in the "To receive" column and all the sales in the "To deliver" column, and the totals carried out, the columns are footed up and the balance struck. If the clearing-house sheet as made up shows a credit balance to the owner of the sheet, a draft for the correct amount is drawn on the clearing house. Before 3 o'clock the draft is certified and is paid to him by the clearing house. If on the other hand there is a debit balance, the difference is entered as "balance check" and the owner sends his check for the correct amount with his sheet to the clearing house in settlement, before 10.30 A.M.

Upon one occasion an investigation was made of the clearing-house plan as compared with the obsolete method of receiving and delivering every separate transaction of all stocks bought and sold. The day's work of a single brokerage firm was summarized. Under the old system the total amount of shares received and delivered was

18,700; the amount of checks issued was $649,741, and the amount of checks received $607,456.66. Under the clearing system the total number of shares received and delivered on balance for the same business was 1700; the amount of checks issued was $67,700, and the amount of checks received was $25,415.66.

A sheet which was even in stocks made a still more striking contrast in favor of the clearing house. Under the old system 7900 shares were received and delivered; 21 checks for a total of $672,912.50 were issued and 18 checks for $671,075 were received. Under the clearing plan one check only for $1837.50 was issued and the day's work was balanced.

It is plain, therefore, that the system of clearing, by largely reducing the volume of checks and deliveries, relieves both banking institutions and brokers of much of the monetary demand, to say nothing of risk, confusion, and labor. Without the clearing house the Stock Exchanges of the country from 1899 to date would have been unable to carry on their business successfully. With a system of daily deliveries the machinery of business would have broken down under the strain of increased work to which it has been subjected. In another series of transactions, in which the obsolete and the clearing-house systems were compared, it was demonstrated that there was a saving of more than 75 per cent in the amount of money which a broker requires to use in his day's settlements.

A specimen clearing sheet in which a broker is even follows: —

A SPECIMEN CLEARING SHEET IN WHICH A BROKER IS EVEN

Received from			Price	Am't	Delivered to			Price	Am't
A. J.	100	C. & O.	80½	$8,050	S. S. & Co.	600	C. & O.	79	$47,400
A. & F.	500	C. & O.	80¼	40,125	J. P. & Co.	300	N. Y. C.	134	40,200
J. & Son	100	N. Y. C.	135	13,500	B. Bro.	100	U. S. Steel	47½	4,750
N. & Co.	200	N. Y. C.	135½	27,100					
L. B. & Co.	100	U. S. Steel	48	4,800	Bal. ch'k.				1,225
				$93,575					$93,575

It will be observed that 1000 shares are to be received and 1000 shares to be delivered, and the transactions in each stock also balanced. Now if it were obligatory on the part of the broker to receive and deliver the 1000 shares, it would be necessary for him to check out $93,575 from his bank account, while his sales would entitle him to checks for $92,350 which he would deposit to his credit in the bank. It would be necessary for him to draw five separate checks and receive three, and the aggregate amount of banking power involved would be $185,925. Under the clearing-house system the whole day's transactions are adjusted by payment of a single check for the balance of $1225.

A very ingenious and scientific system of clearing-house bookkeeping enables brokers to adjust their accounts when the sheets do not balance each day. If a balance in stock is to be received or delivered, the account is carried open until such time as the contract is finally adjusted, when the balance is adjusted by payment of cash and the delivery of stock or bond certificates.

Assume that the transactions in the several stocks do not balance. The following sheet is an illustration: —

Received from			Price	Am't	Delivered to			Price	Am't
A. B. & Co.	900	St. Paul	80	$72,000	B. & Bro.	500	St. Paul	80½	$40,250
M. & L.	100	St. Paul	80¾	8,075	G. & Son	1000	N. West	118	118,000
D. E. & F.	1000	N. West	119	119,000	M. & O.	400	Mo. Pac.	59	23,600
A. Bros.	1000	N. & W.	48	48,000					
T. & W.	200	Mo. Pac.	58	11,600					
Bal. del.					Bal. rec.				
D'l price	200	Mo. Pac.	57	11,400	D'l price	500	St. Paul	80	40,000
Bal. d'ft				775	D'l price	1000	N. & W.	49	49,000
				$270,850					$270,850

In a magazine article explanatory of the clearing-house system, Mr. Alexander Dana Noyes said of the above sheet: "On this sheet it will be observed that the transactions in Northwestern stock comprised 1000 shares bought and 1000 shares sold. Under the clearing-house system, therefore, there will be neither receipts nor deliveries of this stock by the broker presenting the sheet. But with the other stocks traded in the case is different. Of St. Paul stock 1000 shares in all were bought and only 500 sold. There is left in this stock, therefore, after the clearing-house operations, a balance of 500 shares to be received. Similarly in the case of N. & W., of which 1000 shares were bought and none sold, the broker must receive 1000 shares. In Missouri Pacific stock, on the other hand, 200 shares were bought against 400 sold; so that the broker concerned has left a balance of 200 Missouri Pacific to deliver. These balances are duly entered, as the specimen sheet indicates, on their respective sides of the account.

"Two further points in the clearing-house arrangements must here be noticed. One is that the brokers between whom given amounts of stock are to be actually exchanged are named arbitrarily by the clearing-house manager. Any broker having 500 shares of St. Paul to deliver may be directed to deliver it to the broker presenting the above sheet. He may have had no personal transaction with the broker assigned to him; that is a matter of no concern. The clearing-house deals with exchanges, not with bargains — with balances, not with persons; and so long as the entire list of deliveries due is assigned in correct proportion to the items in the list of receipts due, the clearing-house books balance and every broker will have received the stock to which he is entitled.

"The other point is, that in assigning balances of stock for receipt or delivery, the clearing-house authorities reckon the value by use of an arbitrary price. The custom is to take the even price nearest the quotation of the day's last sale in the stock concerned, and these prices are made public immediately after the close of the Exchange.

"The 'delivery price' is not necessarily, and, indeed, not usually, the actual price at which the sales were made. In the specimen sheet above, for example, the three actual transactions in St. Paul were made, respectively, at 80, 80¾, and 80½; the arbitrary 'delivery price' was 80, which is not even an average price. This fact, however, can make no difference in the accuracy of the final result, because the amount of the clearing-house check or draft assigned to balance the sheet is larger or smaller, according as the arbitrary clearing-house values for delivery vary from the actual values. A moment's study of the sheet will prove this. Suppose, for example, that all the transactions in St. Paul had been made at 80, both those in Northwestern at 119, that in N. & W. at 48, and those in Missouri Pacific at 57, and that these figures had also been selected for the 'delivery prices.' It is clear that when the 'deliver balance' of 200 Missouri Pacific and the 'receive balance' of 500 St. Paul and 1000 N. & W. had been added to their respective sides of the account, the sheet would then have balanced, and that no draft would have been required. For the 'receive' and 'deliver' balances checks must, of course, pass through the brokers assigned for the exchange of stocks, precisely as was done on a far larger scale under the old system. The 'balance draft,' or 'balance check,' as the case may be, merely offsets the natural discrepancy arising from the use of an arbitrary price in calculating the money value of stock balances.

"This ingenious bookkeeping device extends to the process of money exchanges all the economical advantages earlier secured in the exchange of stocks. The shares bought and sold in this sheet do not offset one another, but the amount of deliveries made necessary by the recorded transactions is reduced from 5100 shares, under the old system, to 1700 under the new. The exchange of checks, meantime, is economized in similar measure. The old system would have required the issue of checks for $258,675 and the receipt of checks for $181,850 — a draft upon money balances amounting in all to $440,525. Under the system of clearings, checks for only $89,000 need be issued by this broker and checks for only $12,175 received — a total of $101,175."

There is not in the United States an exchange clearing house that is conducted with greater economy, speed, accuracy, and efficiency than that of the Consolidated Stock Exchange of New York.

CHAPTER XII

Consolidated Stock Exchange Principles

Upon one occasion a president of the Consolidated Stock Exchange defined its principles and the business relations existing between its members and their clients.

He said: Among the positive requirements to which each and every member of the Exchange is subject are the following: —

(1) Every transaction must be real. No fictitious or unreal trade or transaction is permitted or tolerated.

(2) No discretionary business is permitted. A broker must not, under pain of expulsion, accept orders to be filled or not in his discretion or in the discretion of any one in his connection or employment.

(3) Every member of the Exchange is obliged to keep complete books of account; and these books of account are always subject to examination by the authorities of the Exchange.

(4) The evidence of each separate transaction for a client must be given to the client by his broker, with full particulars thereof.

(5) Any member failing to comply with the law, to which reference has been made, is subject to suspension or expulsion.

THE RULE IN THE CASE

In this connection, Section 6 of Article III, of the by-laws, general rules of the Exchange, provides as follows: —

"Section 6. — Any member of this Exchange who shall be employed to purchase or sell any security or commodity (listed or traded in on this Exchange) shall keep a record of each transaction in a purchase-and-sales book kept for that purpose, showing the date, number of shares or quantity, name of security or commodity, price, the broker from whom bought or to whom sold, and for whom bought or for whom sold, and shall during the day of the execution of said order furnish to the customer for whom said order was executed, the name of the broker from whom the said security or commodity was bought or to whom sold as the case may be; and any member failing to comply with any or all of the requirements of this paragraph shall be deemed guilty of acts detrimental to the interest and welfare of the Exchange, or of obvious fraud or false pretence, and the Board of Governors, after investigating the facts of the case, may in its discretion suspend such member for such time as it may deem proper, or may inflict the penalty provided for in Article XIII of the constitution."

(6) Members of the exchange who undertake to carry stocks for their clients (for example, on a margin of cash or securities deposited) must carry these stocks in good faith, or be subject to suspension or expulsion as the penalty. No member of the Exchange is permitted to sell out and go short of his customers' stocks. This is

a rule strictly insisted upon. Section 5 of Article III of the by-laws, general rules, provides as follows: —

"Section 5. — Any member of this Exchange who shall be employed to purchase or sell any security or commodity, listed or traded in on this Exchange, who shall buy or sell (as the case may be) such security or commodity for his own account, thereby nullifying the effect of his client's order, and, under cover of two opposite executions, taking the transaction to his own account, shall be deemed guilty of acts detrimental to the interests and welfare of the Exchange, or of obvious fraud or false pretence; and the Board of Governors, after investigating the facts of the case, may in its discretion suspend such member for such time as it may think proper, or may inflict the penalty provided for in Article XIII of the constitution."

(7) Each applicant for membership, at the close of his examination by the Membership Committee, is handed a card upon which are printed for his particular information Sections 5 and 6 of Article III of the by-laws, general rules, as above set forth.

THE ARTICLES OF FAITH

(8) Each applicant for membership, in appearing before the Membership Committee for examination, is asked, among other questions, the following questions in particular: —

"In case you are elected a member of this Exchange, do you promise not to engage in any 'bucket shop' business?

"Do you promise not to connect yourself with any person engaged in the 'bucket-shop' business?"

Unless he can satisfy the Membership Committee of his sincere purpose to avoid "bucket shopping" or "bucket-shop" methods and persons, he is not admitted to membership. He is also asked the following question, and can only be admitted upon a satisfactory reply thereto.

"In case of your election as a member, do you promise and agree that you will comply with all the laws and rules of the Exchange, and will, to the best of your ability, assist in maintaining good order and fair dealing in the Exchange?"

(9) The greatest care is taken in admitting new members. Many applicants are rejected. The character and record of each applicant is submitted to the most thorough investigation; and in order to be admitted he must prove that he has an adequate financial equipment. He must exhibit and prove his bank account and his possessions whether in real estate or personal property or both.

(10) The Consolidated Stock and Petroleum Exchange (popularly called the Consolidated Stock Exchange of New York) has been in existence about twenty-five years. It has about thirteen hundred members, nearly half of whom are active on the floor of the Exchange. The character of its membership will compare favorably with that of any institution in the country. Its Board of Governors is made up of high-toned, able men chosen from the Exchange by reason of their experience and fitness. They are and have been absolutely and unani-

mously in earnest in endeavoring to suppress "bucket shopping" and protect the community from illicit dealings in stocks and commodities. The business of the Exchange is much the largest of any exchange in the country save one. Its transactions are probably more numerous than that of any other exchange in America. These transactions, as a rule, go on from month to month without complaint or occasion for complaint. Complaints, as on every exchange, occasionally arise. The president is always ready to take up any matter brought before him. The Complaint Committee and the Ways and Means Committee (which last is the committee of discipline) are always ready to receive statements from persons claiming to be wronged or injured. The rules of the Exchange are earnestly and severely enforced.

(11) The Consolidated Stock Exchange of New York is a strong and purposeful institution. It owns property. It has a Gratuity Fund of $400,000. It has struggled for many years to establish high standards. It proposes to live up to those standards. It will oppose illicit trading and illicit practices wherever it finds them. It is in a stronger and better position to-day than ever before; and its aim will be to perfect and enforce the best business methods and principles of the highest integrity.

AS TO STOCK CLEARING

(12) In the public mind a perplexity has arisen regarding the clearing-house system as applied to stocks. All great commercial centers and many important lines of business now operate by clearances. The immense

growth and prosperity of commerce could not have been achieved without these clearance devices. They are among the important tools of modern civilization.

The stock clearance system was originally employed in this country on the floor of the Consolidated Stock Exchange. Its conditions, as improved and perfected, now constitute a most important and necessary facility in the settlement of business on the great exchanges of the country. The clearing-house introduces no fictitious elements into business. On the contrary it furnishes a plan and medium for doing large business on exact principles of business integrity. Each member of the Exchange is entitled to have a clearing-house sheet. Under orders of his many customers he is likely to both buy and sell various amounts of the same stock for their account. Under the old system it was often impossible to make, within the required hours, the numerous individual cash settlements. Under the clearing-house system adjustments are made, and the broker takes up the stocks and pays the money required, or receives the balance due him, as shown by the clearing-house results of the day.

Take a simple illustration. A has executed for five different customers, viz.: B, C, D, E, and F, an order, in each case to buy 100 shares of "Copper." He has executed for G an order to sell 200 shares short. In the clearing-house returns he must pay for the net purchase of 300 shares of "Copper" as a part of his entire transactions for the day. He has the care and responsibility to his six customers in respect of 700 shares, 500 shares long and 200 shares short. The stock that he must take up and pay for in one way or another costs him interest to carry. He either furnishes the cash to carry stocks out of his own capital, or he borrows money from a bank for that purpose, or, in the way of loaning stocks on the floor, he borrows money from his co-members of the Exchange. As to the identical and particular stocks bought, they necessarily go into the common and general use for the convenience and requirements of the business.

THE BROKER'S LIABILITY

The stocks bought are always available in an honest and careful broker's hands, for the client for whom they were bought. But in no exchange is a specially numbered stock certificate put down opposite the name of any purchase. If a broker is carrying for five customers 100 shares each of a certain stock, he must be prepared to deliver at any time 100 shares of the stock to each one of the clients for whom he is carrying. But it is not of necessity any one particular certificate of 100 shares. In connection with bank loans and floor loans, the changes of the money market, etc., the stocks in charge of brokers for their customers are shifting position from day to day, but the liability of the Exchange member does not shift, and he must always be ready to meet the legitimate requirements of his clients, and to deliver stock and to sell stock and make returns thereon when required. This is honest, legitimate, stock brokerage business the world over. It is the same on the New York Stock Exchange and on the Consolidated. There is no difference. On the Consolidated, any defect or deficiency on the part of a member is met instantly with suitable discipline by the authorities of the Exchange.

Take a further example. The associated banks of New York could not to-day live and do business without their clearing house. For a simple and obscure illustration we will suppose that H., a retail merchant, finds himself in the office of his friend, a jobber, whom we will call J., with $2000 of bank bills received on small store sales. He says to the jobber: "I don't want to carry these bills about with me. I turn them over to you. I shall want to buy from you shortly $1000 worth of goods. The other $1000 I shall want back in cash next week." The jobber, Mr. J., takes the $2000 and deposits the sum to his credit in bank. The following week he sells H. some new goods, and gives him a check for $1000. H. goes to the bank with the check and draws the money. Does he receive back the money he left with J.? Yes and no. He gets bills of the same value but not the same bills.

Again a grain dealer in a small town in Illinois sends his grain to Chicago for sale. It is received there by his factor or agent and is stored in one of the great warehouses or elevators. The elevator is receiving and pouring out grain constantly. In a week or in a fortnight the country grain dealer orders his grain sold, and does he receive pay for that? Yes and no. Probably not a single particle of the precise grain which he shipped is sold for his particular account; but a like amount of the same kind of grain, being in the elevator with the grain which he shipped, is carefully tallied out, and he gets his honest and appropriate returns on his ownership of grain.

These are illustrations of clearances, and by keeping them in mind, even persons unaccustomed to the modern invention of clearing houses will see that the invention is as honest as it is clever, and that it is all intended for the development, perfection, and protection of honest business and has nothing whatever to do with illicit purposes or projects.

CHAPTER XIII

Types of Consolidated Stock Exchange Traders

The various types of traders on the Consolidated Stock Exchange make an interesting study. They can be divided into eight separate classes: —

(1) The odd lot trader.
(2) The specialist.
(3) The room trader.
(4) The "even up" trader.
(5) The speculator and investor.
(6) The floor broker.
(7) The commission broker.
(8) The arbitrageur.

Considered separately they may be described as follows:

(1) The odd-lot trader is one who confines his transactions to lots of 10 and its multiples up to 100 shares. Usually he trades in lots of from 10 to 50 shares. He may elect to trade in one stock or a dozen. He may take an active part in the trading when and where the most activity is to be found. To-day it may be Union Pacific; to-morrow Reading, and the next day St. Paul.

New members often decide, after an investigation of the field, that, until the rules and customs of floor trading are thoroughly mastered, it is the part of wisdom to stick to the odd lot for the benefit of the experience to be derived at a minimum expenditure. The "ten and twenty share man" and the "fifty share man" are each included in the odd-lot class.

In an active market such a trader may make fifty transactions in a day and if they were confined to 10 and 20 share lots and each netted $\frac{1}{8}$ — the minimum profit — the gross return exclusive of stamp tax would be in excess of $\frac{1}{8}$ of 1 per cent on 500 shares, or $62.50. But some of the transactions may simply represent purchases and sales at the same price. In this instance the trader seeks to scalp the market for $\frac{1}{8}$ to $\frac{1}{4}$.

If the stock fails to move as the trader expected, he will forthwith sell it out or buy it in at the same price, rather than wait and incur the risk of losing. And, again, a part of a large day's trading may represent losses, for, obviously, not every trade shows a profit or is a "split-even" transaction. The trader, of course, expects to average out the day with a profit to his account. Traders of this type are usually content with small profits, and a necessary condition is that they should school themselves to take small losses. In looking over the month's trading the odd-lot trader examines his books to see that his profitable days exceed his losing days both in number and amount.

The odd-lot trader has discovered that in an active market he can, if he wishes, do a very considerable business in the five hours' session, and, also, that it does not take a very large amount of stock to show substantial profits or losses as the case may be.

The odd-lot trader may be a scalper, or he may in the vernacular of the floor "stand on" his trades. As a scalper he trades for small profits and losses and quick turns. He prefers to make many rather than few trades, on the theory that if he reads the market wrong in the morning he has the opportunity to retrieve his position in the afternoon; or he may find that in one hour or two he has had a profitable day, when if he desires he can cease trading, withdraw, and go home, or pursue any course he determines upon.

If he "stands on his trades," which means that he carries his transactions over from one day or week to another, he will lend out his long stock and borrow his short stock at the end of the day; or he may take up and pay for his long stock if he wants to.

Some of the largest and most skillful traders have started on their careers as odd-lot men, regarding their experience as constituting an apprenticeship. The length of this experience varies and in no two cases seems to be alike. Other men trade in odd lots from preference. Every man evolves a system of trading that is suited to his temperament and capital.

(2) The specialist is a trader who has determined to devote his trading to one stock exclusively. It may be United States Steel common, Union Pacific, Reading, or Amalgamated Copper. It may be a very slow, orderly moving stock, or it may be an exceptionally active so-called "speculative favorite," the list affording a wide range of choice in which every trading temperament can be accommodated. Some traders want slow and narrow, and others rapid and broad fluctuations. Reading

appeals to one type of trader who is quite distinct from the trader who confines his attention, say to United States Steel common, for example. Each trader of the specialist type seeks the stock for which his temperament is adapted.

Almost every man finds that there is one stock which he understands and can trade in better than another. Having found a favorite stock, he usually sticks to it, although it frequently happens that a trader, tiring of one stock after a long period of work in a particular group, will turn about and make his headquarters in another crowd. Thus, the United States Steel common specialist this year may be stationed in Amalgamated Copper next year. It is a simple question of fancy and profitable results.

The specialist usually trades at the bid-and-asked prices on either side of the market in lots of 10 to 500 or even 1000 shares. As the trend or tendency of fluctuations extends up or down there is always a bid-and-asked quotation on the floor. The specialist is quite indispensable to the commission broker, for he always stands ready to make a market for the commission broker.

To illustrate: The commission broker hastens from his telephone booth to a particular crowd and as he approaches it he inquires: "What is the market?" The specialist (endeavoring to be the first to bid) answers, "I will give $\frac{1}{4}$, or sell at $\frac{3}{8}$, 100 shares or any part!" or the market quotation may be wider. The commission broker buys 100 shares at $\frac{3}{8}$, whereupon the specialist endeavors to buy back the 100 shares he has sold, if he had not already done so. If he fails to buy in the 100 shares at $\frac{1}{4}$, he takes back the lot at $\frac{3}{8}$, or even; and possibly, if he has misjudged the market, it may cost him $\frac{1}{8}$ or $\frac{1}{4}$ more to recover his stock. He pursues precisely the same tactics if he buys the stock. He is always trading for small profits and he makes many transactions in a single day. He helps make a freely moving and elastic market and contributes to the ease and certainty with which the commission broker transacts his business. Economically he performs a useful function measured by his financial responsibility and willingness to trade under any and all market conditions. Without his contracts the market on any exchange in any stock becomes much narrower and the fluctuations between sales much larger. The more trading there is on every $\frac{1}{8}$ fluctuation, which is the minimum in the New York markets, the more highly organized and perfect a market results.

The successful specialist if trading in an active stock must be a robust man, have a strong voice, be quick-witted, and always willing to trade. A good memory for faces, names, and figures is quite essential, as mistakes and lost names are costly, disputes usually being settled by arbitration and division of the loss, if any, unless the transaction is susceptible of proof. Some specialists confine their trading to odd lots; the most successful trade in any amount. The specialist works hard; he earns his money and usually fares well, the returns depending on the activity of the market, his volume of trading, and his ability to read the market and take a correct position with the rising or falling trend of prices.

(3) The room trader trades "all over the room" in any stock which is active, for large or small profits or

losses, usually small ones, and generally he is a scalper, having outgrown the odd lot class; or he may be a large trader by choice. He reads the market from day to day. He does not have pronounced opinions; he is quick to change — a bull in the morning, a bear in the afternoon; he has evolved a system of trading that suits his temperament and he holds very fast to a few basic principles of trading. For instance, if he scalps for small profits, he limits his loss to say $\frac{3}{8}$ of 1 point, as the maximum; but unless the market is a narrow one he expects to accept even smaller losses. If he stands on his trading contracts all day, he may make his stop loss 1 or 2 per cent; but as he raises his stop loss he raises the limit of his possible profit. Always he remembers that profits must exceed losses — profitable days must average larger than losing days; hence the imperative maximum stop loss and the smaller the amount to which the loss is limited the better, is the experience of the average trader.

The room trader follows the market and the activity. If the activity to-day is in the Coal stocks, he will trade in the Coal stocks; if to-morrow it is the Grangers, then to-morrow he will be found in that group. He is always ready to trade. He takes a position in the market, believing that an individual stock or group of stocks has a definite trend up or down and upon which he bases his operations. He may sell 100 shares at $\frac{1}{2}$ and buy it back at $\frac{3}{8}$ and repeat the transaction on the scale downward as often as he can; or he may sell 100 shares, buy 50 back at $\frac{3}{8}$, and if he thinks that the market is going to decline, will stand on the remaining 50 until it shows him a substantial profit.

There are fifty variations in trading by traders of this type. Quick wit, quick decision, assurance, self-conceit, nerve, and market-reading capabilities are some of the essentials in the making of a successful trader. The successful room trader is usually an experienced trader who has served his apprenticeship as an odd-lot man, although this is not always the case.

(4) The "even-up" trader. A trader of this type may be included in any one of the three preceding classes. He makes a point of "evening-up" his transactions every day, or in the language of the board room he goes home with a clean clearing-house sheet and nothing to disturb his equanimity.

The theory of the trading proposition as outlined by the "even-up" trader is about like this: "I am here to make money. You feel better when you make than when you lose; therefore I should make money every business day, even if it is only a small amount. I will endeavor to take a draft out of the clearing house every day and put in as few checks as possible. There will be times when at three o'clock there will be an almost irresistible temptation to go home with contracts outstanding, but a bird in the hand is worth two in the bush. The small and relatively sure profit, rather than the larger and more uncertain profit, is adapted to my temperament. To-morrow is another day. The market will always be here — next week, next month, next year, a century hence.

"Each day is a chapter unto itself. The market often fluctuates many times over a narrow range. A particular stock may fluctuate within a two or three point range for months at a time. In such a stock a scalper may make one hundred successful trades where the man who carries over his contracts may make very few. The man who carries over his contracts may see paper profits and yet never collect them. I will collect mine from day to day, and often the dull market will prove to be as profitable to me as an active market." Traders of this type are usually money makers and the principle of "evening-up" appeals to the temperament of many men.

(5) The speculator and investor may operate exclusively as one or the other, or he may combine either field of work with trading in one of the preceding groups. The speculator and investor is usually a skillful and experienced professional trader. He has probably served years of trying apprenticeship.

He decides to the best of his ability the main trend of the market, preferring, as an investor, the constructive side, of course. When purely a speculator, he at times prefers operations for the decline; but as age and experience are acquired the short side is only attractive for occasional campaigns. In this class there are a number of trading systems. To illustrate: —

(*a*) Here we have a student of finance. He studies the economic situation. He determines for himself the market trend. He proceeds to take a definite position as a bull or bear and follows out his operations along a preconceived plan, suggested by his experience and his capital. He knows that more losses are made in Wall Street from trying to do too much with too little than from any other cause,—that one dollar will only do one dollar's worth of work. His commitments are always made with an eye to investment values as well as the psychology of speculation.

If the transaction is carried over a long period of months or a year or two, the stock or bond bought carries itself with its dividend yield. A loss is protected by more than ample margins, or the security is taken up and paid for. He makes comparatively few transactions, and patience is one of his important traits of character.

(*b*) A trader of nervous temperament and quick wit; a speculator. He is a close student of the tape or the blackboard. He is a keen market reader and often can follow the tape almost instinctively. He observes a move coming and hastily makes a substantial commitment when he may stand on his contract for a large profit or loss; or he may, if the transaction is profitable, retire a part of the commitment at a small profit and hold the remainder for a large profit.

(*c*) A speculator from day to day. He endeavors to read the day's trend or secondary swing of prices as distinguished from the main trend. Suppose Reading, for example, is about to have a three or five point upward swing. He will endeavor to acquire a block of stock at the low level. On the strong points he will sell part of his holdings, and take them in on any reaction, finally closing out the lot, having followed out the trend for large profits. In the event of an error of judgment losses are correspondingly large.

Others could be described as representative of this group, but they vary as much as do the temperaments of men. It is undoubtedly true that no two traders trade exactly alike.

(6) The floor broker is employed by commission firms to execute their orders on the floor. The work is hard and calls for good health, faithfulness, and brokerage ability. Floor brokers are paid $1 per 100 shares on all orders. Some firms employ one floor broker; others employ as many as a dozen, the number varying with the market's activity. Where a dozen brokers are employed, a large firm finds it necessary to be represented in each active stock, or in special groups of stocks, by a special man, as time is a very important factor. Floor brokers earn from $2500 to $15,000 a year, the opportunity and the man determining the financial results. Some of the cleverest independent traders have served an apprenticeship as floor brokers. Aside from the fact that the work is profitable it is regarded as one of the best ways for a new man to learn the business.

(7 and 8) The commission broker and arbitrageur are described in separate chapters.

CHAPTER XIV

The Consolidated Stock Exchange Arbitrage Trade

An arbitrage trade in stocks is carried on between the New York Stock Exchange and the London Stock Exchange and between the Consolidated Stock Exchange of New York and the Boston and Philadelphia Stock Exchanges.

A large and profitable trade is transacted between the Consolidated and Philadelphia Stock Exchanges, especially in Reading, Pennsylvania, Erie, and the Steel stocks; and with Boston in Copper, Sugar, Union Pacific, the Steel stocks and others.

The business of the arbitrageur is to buy in one market at a price and sell at a higher price in the second market; or to reverse the operation by selling at a price and buying in at a lower price. The object is to net the temporary fractional differences that may exist between the two markets.

The single profit is small — usually $\frac{1}{8}$; and this is not all net profit, for from it must be deducted the expenses of the trade. To conduct a successful arbitrage trade there must be many profitable transactions, and while not all are profitable or made at even prices, it follows that there are more profits than losses or the trade would not be carried on.

Expenses in connection with this trade are the (1) maintenance of offices and clerks; (2) special telegraph wires and operators; (3) brokerage; (4) transportation of securities.

There are no better brokers in the world than arbitrage brokers. They are obliged to excel or they do not survive. The arbitrageurs of the Consolidated can only be equaled by the experienced members of the Stock Exchange, and they have no superiors. One has only to have studied the work of the two to arrive at this conclusion. No broker gets closer to perfect brokerage work than the expert arbitrageur.

We will assume that a firm is arbitraging between New York and Philadelphia in Reading stock. A special telegraph wire extends from a booth on the floor of the Philadelphia Stock Exchange in plain view of the Reading crowd to a booth on the Consolidated Stock Exchange, which is also in plain view of the Reading crowd on the latter floor. The telegraph key at each end of the wire is in charge of an expert operator.

The ears of the telegraph operator in Philadelphia are centered on his key; his eyes on the broker-representative of his firm who stands alert, in the Reading crowd. The same conditions exactly prevail on the floor of the Consolidated, where broker and operator are watching each other intently. The clock is striking 10 A.M.!

Suddenly the Consolidated operator extends his hand above his head and seemingly signals frantically with his fingers in the deaf-and-dumb alphabet. Interpreted, the operator's signal means that 500 shares are offered at ½ in Philadelphia. In the Consolidated crowd the arbitrageur finds scattered bids of $\frac{3}{8}$ for 300; he signals his operator to buy 300 in Philadelphia at $\frac{1}{4}$ and as quickly fills up the orders for the $\frac{3}{8}$ stock. The execution of the transaction takes less time than is required to describe it. The trade represents profits of $\frac{1}{8}$ on 300 shares of Reading (half-stock), or $18.75.

The transaction described is continued with variations throughout the five hours' session of business. Sometimes profits are more than $\frac{1}{8}$; and also there are times when the arbitrageur is glad to get out even, and there are other times when the market suddenly and mysteriously disappears and leaves him in the lurch for $\frac{1}{4}$ or $\frac{1}{2}$ a point. Some of the Consolidated arbitrageurs have a twenty-five years' experience in the business, for in the days when petroleum pipe-line certificates were heavily traded in on the Consolidated of New York, the Pittsburg, and Oil City Oil Exchanges, they successfully handled wires between those markets.

To be a clever arbitrage broker one should have a powerful voice, a robust physique, good eyesight, a fine memory, a quick wit, and the mental equipment that results in quick decision followed by instantaneous action.

At the end of the business day the purchases and sales may balance even; but it is more likely that they will not do so. Suppose that the day's trading simply consisted of the three hundred shares we have employed in the illustration. It follows then that if the stock is bought in Philadelphia and sold in New York that it will be necessary to ship the stock certificates from one city to the other.

But scores of transactions are made in a day. Then balances are borrowed or loaned until settlement day, and once in so often adjustment of balances is made by actual delivery of the stock certificates.

Dealings of this character tend to keep the two markets on a parity. If there is a rising market in Reading in Philadelphia and the stock is disposed to be a laggard in New York, the operation of arbitraging may be comparatively simple, the bulk of the purchases being made in New York and the sales in Philadelphia.

This business has been decidedly helpful to the Consolidated Stock Exchange in more ways than one, contributing as it does to make a broad market and introducing sources of revenue that benefit the whole institution.

CHAPTER XV

Day's Work of a Consolidated Commission Broker

There is a popular notion that stock brokers enjoy a very easy and profitable vocation. As a matter of actual fact there is very little about the work of a stock broker that can be described as easy. The appearance of ease is deceptive. Beneath the surface there is intense concentration of effort. And so far as profit is concerned, while it is true that the business is financially a profitable one, yet it must be remembered that the security trade is one that experiences many ups-and-downs, active seasons and sometimes prolonged periods of dullness.

Some years are very profitable; others are not. A Broadway brokerage concern which made profits of $155,000 in 1900–1901 scored a net loss of $350 in 1902–1903. Sometimes brokers are disposed to say that when business is good, it is very, very good and when it is bad, it passes patient description in pure, undefiled English. It is a business of many opportunities.

During a prolonged dull period the expenses of a commission firm have a habit, a not very welcome habit, of going on just the same as in good times. The expenses of the average commission house are large, and some brokers find it difficult to keep them down. They do not contract and expand with the course of business. It is probably true that a small and safe commission business in stocks can be conducted on the Consolidated Exchange with less expense than anywhere else. This is especially true of two-men firms, one partner conducting the office and the other the Exchange end of the business.

The efficient commission broker enjoys vacations that are few and far between. He is a student of business conditions and he is decidedly intense in the application of his energies to the upbuilding of his business. As the commission business demands intensity of application and a call to the strenuous life, it is the approved custom to divide the work of a commission firm into two or three parts—one partner is the Exchange (or floor) man and the other one, or two as the case may be, handles the office end. If there are two men in the office, one devotes his time to the accounts, and the second, to the customers' department.

The floor broker, on coming down town in the morning, may or may not go to his office to confer with his partner, or partners, regarding the day's work. If he arrives at the exchange, say at 9:30, he checks his hat and coat in the room set aside by the Exchange for that purpose and at once proceeds to his telephone booth, where he finds his telephone clerk awaiting his arrival.

The clerk informs his broker-employer that the clearing-house "sheet" is "all right." If, though, there have been any failures to make comparisons of transactions, or there are any lost or disputed trades, the broker looks up the other principal to the transaction. And, usually, no difficulty is experienced in straightening out the tangle, for the great majority of Consolidated brokers are careful in recording trades and mistakes are surprisingly few when comparison is made with the total dealings of a day.

If the clearing-house "sheet" is "all right" or "O.K.," the broker asks his clerk for his memorandum purchase-and-sales book, and any orders that may have come over the telephone from the office. The broker quickly classifies his orders, making notes of his "stop orders" and harmonizing and memorizing his orders for execution "at the opening" and "at the market." He probably finds that he holds "market orders," which means that he is to buy and sell at the best obtainable market prices, and also orders at specified prices on both sides of the market, and his orders may be confined to one stock or they may be scattered in two, three, or possibly a dozen stocks.

Having "sized up" the outlook for the opening, the broker looks up the London market on the news agency slips or tickets, and the overnight news events and gossip. Having ascertained the news, he considers its importance in its relation to the stock market. Possibly he finds that no sensational events have taken place since he hastily scanned his morning paper on his way down town in the subway.

By this time the Exchange floor is a scene of activity. Hundreds of members are grouped around the trading posts talking market talk, all eagerly awaiting the opening. Our broker looks at the clock and finds that the big minute hand on the dial overlooking the chairman's rostrum is rapidly approaching the hour of ten. The chairman has arisen from his chair and stands with gavel in hand, waiting to formally open the five hours' session of business.

Bang! It is ten o'clock. The swelling murmur of brokers' voices has become a roar and another Wall Street day is making financial history. In the few minutes before the opening our broker has hastily made his way to his telephone booth and asked if there were any more orders or further instructions from the office. It may be that there is a pressure of business, in which event he doubtless employs other brokers, when he distributes the orders among them according to their capabilities. If he does not pursue this course, he proceeds to fill his most important orders first, and as fast as he buys or sells a block of stock he pencils the trade in the purchase-and-sales book (or on a slip of paper) and then reports it to his telephone clerk who in turn notifies the office, the whole transaction often requiring less time than it takes to describe it.

Now, the market may be dull or it may be active. If it is dull, orders are few and hard to execute. A difference of $\frac{1}{8}$ in buying or selling may delay the execution of an order for one hour or one day; if, on the other hand, it is what may be described as a lively market, the business is transacted expeditiously. There is a snap and animation about the scene that is entirely lacking in a dull market.

In a dull market the broker stands around and "gossips" with his fellow-members for want of something better to do. Strange to say it is the most tiresome part of the day's work, for the broker's temperament is one that calls for mental activity. He prefers the hardest kind of brokerage work to enforced idleness.

"It is not nearly so tiresome," says a commission broker, "to execute a big day's business as it is to stand around all day in a dull market. Sometimes when I am very busy I go home without any special feeling of weariness or fatigue. If I am obliged to stand around all day, and I have only traded in a few shares in the five hours' session, I often find that I go home quite exhausted. Standing on your feet for five hours waiting for business to materialize is about as hard a task as anything I know of in the financial or commercial fields of endeavor."

Every commission broker is anxious to make good executions. If he has an order to sell at $\frac{1}{4}$ and he can get $\frac{3}{8}$ for a block of stock, he knows that a pleased customer means trade, and so clever are the executions of the floor representatives of some Consolidated firms, that success in building up an excellent and profitable trade is largely due to their good executions. Many successful Consolidated houses have never been heard of outside of Wall Street.

"We," said the senior member of a firm, "decided when we organized our firm to make a specialty of trying to do in the market for our customers better than they expected us to do. Every time we saved a man $\frac{1}{8}$ or $\frac{1}{4}$ it made that man a pleased customer, and when we saved $\frac{1}{8}$'s and $\frac{1}{4}$'s right along, those customers brought their friends and we kept adding to our list until we had established a profitable clientele."

In this instance the floor broker is a broker by intuition and training. It had always been his ambition to be a stock broker and he has gratified his ambition and become one of the successful men in his field.

"I can," he says, "do the work of a broker better than I can do anything else, and I like it. These are the two reasons why I have succeeded in the business."

We will now assume that the commission broker has had a busy morning and that the noon hour has arrived. The big minute hand on the big clock behind the rostrum has drifted by twelve and is on its journey to "half past." The broker looks up his telephone clerk and finds that a messenger boy from the office is waiting with the No. 2 or afternoon purchase-and-sales memorandum book which he delivers in exchange for the one that the broker has used in the morning. The morning book is taken back to the office, where the transactions are checked up and entered. The broker arranges his orders in the No. 2 book, opens a blank page, inscribes the date, and starts afresh.

It is now 12:30. No one has said anything about lunch, but the broker knows that he is hungry, and when his office partner (or associate floor broker) walks in to relieve him for luncheon hour, our friend the floor broker hastens to his favorite restaurant for the lunch of Wall Street — which is the quickest of all luncheons. On his return he resumes charge of the purchase-and-sales book.

The work of the afternoon is in full swing. It is possible that there may be little doing until 2:30 or even 2:45 when the market may experience a sudden burst of activity that keeps our broker on the jump and tenterhooks in his strenuous efforts to keep pace with his orders and the market.

It may happen, too, that the market becomes so active that executions of orders are not as good as usual; that the market in a particular stock is lost by the fraction of a second; that a costly error is made which must be defrayed by the broker. When some such unfortunate incident occurs, it may rob the day of its bloom, but the mental attitude of the broker must be that of the philosopher. To-morrow will be another and a better day.

He is there to do the best he can; he cannot afford to get excited, when the excitement will be profitless, perhaps financially unprofitable and injurious to his health. It is bad enough to be obliged to get excited in buying or selling a block of stock in a struggling mass of brokers as the price is wildly and rapidly fluctuating; but it does not pay to get excited over the hard luck episodes of the session.

While buying and selling from 10 A.M. to 3 P.M., the floor man has also furnished the office on demand with many bid-and-asked quotations; reports on rumors and news; the identity of buyers and sellers; opinions regarding the market, etc., etc.

At 3 o'clock the office partner (or clerk or messenger) has returned to the Exchange with two loan slips, the floor broker gives his No. 2 purchase-and-sales book to the telephone clerk who takes it to the office and hands it to one of the bookkeepers.

The office partner or messenger hands the floor broker one or both of the loan slips, and they may read something like this: —

Lend

10 Ontario & Western.
520 Pennsylvania.
580 St. Paul.
220 Union Pacific.
200 Amalgamated Copper.
50 B. & O.

Borrow

20 Erie.
550 U. S. Steel common.
300 Reading.
30 Rock Island.

This means that the office is "long" of the stocks that it wishes to lend and "short" of the stocks that it wishes to borrow for customers' accounts.

The floor broker proceeds to each crowd in turn and endeavors to lend or borrow his stocks according to his individual requirements and at the best market rates of interest. It may be that he has no trouble in effecting all his loans — the requirements of other brokers dovetail in with his own. There is a possibility that he will not like the floor rates of interest, in which event he may borrow all his "short" stock from other brokers who are "long," and will then return to his office at half-past three and advise his partner to receive and "take up" (which means "pay for") the "long" stock certificates.

In the latter event the office partner will the next day receive the stock certificates, ex-clearing-house, pay for them by check, and will arrange a call or time loan with a bank for carrying the securities until such time as they are sold or taken up and paid for by the customer.

It is now almost four o'clock; the two partners sit down for a smoke and discuss the incidents of the day. All the customers have departed for their homes or places of business; the clerks are busily posting the books.

Business may be good or bad; it may be midsummer or midwinter; there is always something or some one up for discussion. There are no two days exactly alike in the stock business. Each day brings forth its problems.

All this is one side of the stock brokerage business. It is the unfamiliar department and the one that is clothed in more or less mystery to the customer and outsider. The customer comes in contact with the office staff, for the man who has charge of the customers' room is his friend, and his monthly statements coming from the bookkeeper sometimes call for explanations and so he also knows the bookkeeper and something about his work.

It is nevertheless true that the responsible office man of a large commission firm must be a skillful stock-market pilot in a liquidating market or a panic. Skill, patience, quick decision, tact, resourcefulness, and nerve are some of the qualities exacted.

The office man must not only know his end from A to Z, but he must possess self-reliance and he must be an accurate judge of human nature. If he is lacking in the qualities called for or is unfamiliar with the requirements of his place, there may be financial results that will reduce the year's profits to zero.

CHAPTER XVI

The Work of a Trader

The successful room trader may represent one of a half-dozen types. Nine times out of ten he has served an apprenticeship in the stock brokerage business or on the floor in the capacity of clerk and broker. Always he is obliged to serve an apprenticeship as a trader. This experience may be costly or profitable in the monetary sense. To learn how to trade usually requires from six months to a year of close application. Some men acquire the rules of the trade and become expert traders in less than three months; others could not acquire them in a lifetime.

It is almost a tradition among stock traders that novices who plunge successfully in the first year are very often failures in the second or third year. Early success is misleading and deceptive. It has been responsible for the belief that the business is as easy as it appears to be to the average outsider. The room trader who lasts year after year, through feast and famine periods of business, is the man who had an uphill struggle to master the rules and conditions governing the floor.

A successful room trader tells this anecdote.

"My brother," said he, "was a clerk in a brokerage office and he naturally had ambitions to become a broker.

He liked the business and he wanted to enter business for his own account. I encouraged him all I could, but warned him that during the first year he would find many discouragements. He bought his membership and started to trade. It was not a particularly good market, and as I expected, he became the most discouraged trader I have ever met.

"Two or three times he threatened to quit, declaring that he did not have the mental equipment required by the business and I had much difficulty in persuading him to stick, always assuring him that the discouragements of the first year would prove to be the most profitable experience of his whole career.

"A queer thing about this trade is that you may acquire it very slowly and gradually or you may stick at it and work away for months when suddenly in the most mysterious way the whole thing opens up to you, and what seemed to be very difficult becomes comparatively simple. You learn by a process of elimination. You are bound to make mistakes. In the apprenticeship period there are certain mistakes that are unavoidable. All of us have made them. If we apply the results of our experience, we do not make those mistakes twice.

"In some instances it takes quite a long time to find out that three profits of $25 each do not balance a loss of $100. And again five profitable days netting $150 do not balance a sixth losing day when the loss is $175. Some men pay more and some less to find out what to avoid.

"In the case of the man I started to tell about I must say that he repeated his errors often, but once having mastered the rules of the trade he has proved to be one of the cleverest traders on the board."

Another trader who has found the business to be very profitable was asked this question: "What was the most difficult thing about the business you had to learn?"

He replied: "How to take a loss — a small loss."

"How long did it take?"

"Almost a year."

"And after that?"

"That my profitable days must exceed my unprofitable days both in number and amount."

The outsider, on his way home from his office, scans the quotations in the afternoon paper and notes the fact that there have been broad fluctuations of from one to three points in the stock market session of the day. "How easy it must be," he soliloquizes, "for the man on the floor to scalp out a few hundred dollars a day."

But, like many others, he does not know the limitations of the market, and how different the reality is from appearances. There are markets in which it is very easy to make money; there are other markets when it is hard not to lose. In all markets, good and bad, lively and dull, the room trader is expected to preserve a calm and cheerful demeanor; and often under the mask of optimism he conceals a very heavy thinking part, wondering if the outsider is not much better off than the man on the floor.

Having spent say six months or a year in studying the market and the methods of the floor, the trader involuntarily becomes a student of economic and financial conditions and is guided by them; or he becomes an intense student of floor-trading conditions and is guided in making his commitments by his judgment of supply and demand in particular stocks. Thus it often happens that one trader who excels bases his contracts on his carefully formed judgment of the market movement. In arriving at a conclusion he considers the current financial news and conditions and the character of the manipulation and the public investment and speculative demand. Another trader, equally successful, may work from an entirely different mental base of operations. He studies the fluctuations in a particular stock and the momentary tendency. The character of the buying and selling is an important factor with him, for he separates the two classes, one from the other, and determines whether the buying is better than the selling, and arrives at a quick decision as to what he shall do in the circumstances. He is quick to advance and can retreat with even more rapidity.

He knows every broker and all there is to know about him: his financial responsibility, whom he represents, his style of trading, etc., etc. He can tell unerringly if a bidder for stock really wants the stock or is only bidding to make a market; he can distinguish the commission man from the trader, and guesses the nature of the transactions that come under his observation with great shrewdness.

Every trader finds that it is one thing to trade from a ticker in a quiet office and quite another to trade in the centre of a jostling, shouting crowd of brokers. Some successful office traders find that they are not successful on the floor; others have found that they could do better trading on the floor. Largely it is a matter of temperament. The young business man who is strong and resolute and can easily adapt himself to circumstances finds a great deal in floor trading to appeal to him.

In the novice period of the floor-trader's career his best friends are undoubtedly conservatism and a comfortable bank account. The trader who is foolhardy, who plunges and becomes overextended, is almost certain to make a failure. Make haste slowly is the only safe rule. Another condition which should not be overlooked is that the stock business after all is pretty much akin to other lines of business endeavor. The successful trader must live a regular life, and observe the rules of sound health and business or he must pay the fines imposed by nature and economic law. On the other hand, woe-betide the room trader who is ultra-conservative — he is following the wrong vocation and it will not take him long to find it out.

As for capital the floor trader requires sufficient money to comfortably finance his trading and carry him over the dull periods of business, and the amount is altogether dependent on the man and his trading method — it may be $5000 or $100,000 or any intermediate amount.

A room trader, who is almost wholly a speculator, except when he is an investor to a moderate extent in stocks and bonds, talking of his vocation upon one occasion, said to the writer: "I have been in Wall Street twenty-two years, and in that time have always made a comfortable living. I am not an extravagant man, nor have I an extravagant family. I am not a rich man nor do I ever expect to be, although I have saved some money, and should I die my family can continue to live as we are living to-day on what I have saved and my investments in life insurance.

"It seems to me that any man who comes to Wall Street to speculate must, if he is after a fortune, make it in the first half dozen years he is here or he will never make it. Understand that I am talking solely of speculators and not of commission men and investors. The point is that the novice is full of daring; he knows nothing of the dangers confronting him; he sails in regardless, on the top of a bull or bear movement, pyramids, and makes a lot of money. Perhaps he keeps it; the chances are that he won't, for his easily won success seems so easy to repeat. He tries to make a market, to become a manipulator, and the first thing he knows he is back where he started from. If he is a sensible man and takes the lesson to heart, he probably becomes a money-making trader.

"After a man has been here say half a dozen years he knows that he is only a follower of the market. He has become conservative in that he thoroughly understands his own limitations and does not attempt to lift himself by his boot straps out of the class in which he belongs. If 100 shares is his limit, you won't find him trading in 500.

"One of the secrets of this business is in not trying to do too much with too little. The failures of room traders are almost always avoidable. They proceed from well-recognized causes, and mistakes of judgment and policy.

"Taking the business under calm consideration and separating from it all the false notions that prevail, I find that you have to do one dollar's worth of work for one dollar and that its rewards are in keeping with the capital and brains invested. I don't know that a room trader has to be a very intellectual person; on the contrary he simply wants to have at his command the qualities that make a clever business man. Some men can be described as 'money makers,' while the term does not fit others. Some of the Consolidated traders are money makers by instinct, and making money in trading is as easy to them as picking apples from a well-laden tree.

"As to whether the work is harder and more dangerous than other trades? — why, no. It all depends upon the man."

CHAPTER XVII

The Money Broker

Traders and others having at their disposal considerable capital find it possible to profitably employ their money by lending it to borrowers on the Consolidated Stock Exchange, who secure their loans with stock collateral.

The rate of interest varies, of course, with the demand, but the field to those possessing capital is an attractive and profitable one. It is well worth investigation by the capitalist of moderate resources who wishes to employ his money where he can control it on demand and take advantage of the investment opportunities which occur periodically.

In times of active trading and high money rates the capitalist can safely employ his funds at rates that are highly remunerative. In making loans one, of course, in every market closely scrutinizes the character of the collateral and the credit of the borrower. Losses on loans secured by Stock Exchange collateral are rare.

CHAPTER XVIII

STOCKS AND BONDS DEALT IN

STOCKS dealt in include, as a general rule, two classes: —

(1) *common*, and

(2) *preferred*.

Sometimes the stock of a corporation consists wholly of common stock, as in the case of the Amalgamated Copper Company among industrials, and the Louisville & Nashville among railroads.

Again the stock of a corporation may be divided into two classes, common and preferred, as in the case of the United States Steel Corporation among industrials, and the Union Pacific among railroads.

Usually the preference shares enjoy certain advantages over the common shares. This advantage may be the right to a dividend before anything is paid on the common. This dividend on the preferred shares may be cumulative, which means that if it is not paid in any dividend period or year, it accumulates from year to year, and must be paid in full before anything is paid on the common. It frequently happens, too, that the preferred dividend is not cumulative and is limited to a small rate, and a larger amount is paid on the common as in the case of Union Pacific. Yet another custom is followed by the Chicago, Milwaukee & St. Paul Railroad Company, which pays

7 per cent on the preferred and 7 per cent on the common shares, after which each stock shares alike in any further distribution of profits.

Occasionally it happens as in the case of the Erie Railroad that the shares are divided into: —

(1) *common,*

(2) *second preferred,* and

(3) *first preferred shares.*

The preference shares enjoy limited prior rights to dividends.

Bonds are divided into a number of classes, including: —

(1) Government bonds.

(2) Municipal bonds.

(3) Railroad bonds.

(4) Real estate mortgage bonds.

(5) Industrial and public service bonds.

Government bonds represent the debts of National and State Governments, and are usually divided into two classes: —

(1) *registered,* and

(2) *coupon bonds.*

Municipal bonds represent the debts of the counties and cities issuing them, and are divided into the same classes as Government bonds.

Railroad bonds are also issued in registered and coupon form, but there are many different kinds, including the following: —

(1) *Collateral trust bonds.* Bonds secured by a deposit in trust of securities, either bonds or stocks for the benefit of stockholders.

(2) *Convertible bonds.* Bonds convertible into stock.

(3) *Debenture bonds.* Almost identical with income bonds; sometimes cumulative regarding interest, but usually non-cumulative, and without power to proceed except at maturity.

(4) *Divisional bonds.* Secured by a mortgage on a certain part or division of a railroad.

(5) *Equipment notes, and car trusts.* In effect chattel mortgages on rolling stock and railroad equipment.

(6) *Extension bonds.* Bonds secured by a mortgage on an extension of an existing railroad.

(7) *Guaranteed bonds.* Usually bonds of one company guaranteed by another company.

(8) *Income bonds.* Bonds on which it is not obligatory for the issuing company to pay interest unless the actual net income is equal to or in excess of the amount required for interest. They are usually but not necessarily non-cumulative, and do not have foreclosure power if interest is not paid.

(9) *Land grant bonds.* Issued against lands granted by the government in aid of railroad construction.

(10) *Mortgage bonds.* Bonds secured by a mortgage covering all or part of a company's property. They carry the power of foreclosure under certain conditions.

(11) *Terminal bonds.* Bonds secured on city and suburban terminal properties by big railroad systems.

(12) *Underlying bonds.* When a company has made two issues of bonds, one issue secured by a first mortgage on all or a part of its property, and the other issue secured by a second mortgage on the same property, the bonds

secured by the first mortgage are designated as underlying bonds, inasmuch as they underlie those secured by the second mortgage.

Real estate bonds include: —

(1) *Mortgage bonds.*

(2) *Guaranteed mortgage bonds.*

(3) *Farm mortgage bonds.*

(4) *Irrigation and drainage bonds.*

Industrial and public service bonds include: —

(1) *Street railway bonds.*

(2) *Water bonds.*

(3) *Gas and electric light bonds.*

(4) *Telephone bonds.*

(5) *Industrial corporation bonds.*

CHAPTER XIX

The Mechanism of a Complete Bull Trade

There are two ways to buy stocks and bonds: —

(1) To buy outright for cash, and

(2) To buy on a margin.

Those who buy stocks outright in exchange for cash are usually designated as investors. The operation is simple: The buyer requests his broker to buy a block of stock or bonds and deposits the required amount of money to his credit with his broker. As soon as the broker receives the stock or bonds from the seller they are delivered to the buyer, who may request that they be transferred to his name, in which event the broker will attend to the clerical detail. With the delivery of the certificates to the buyer the trade is completed.

Buyers of stocks and bonds on margin are usually speculators, although there are exceptions when buyers on margin can be construed to be investors.

It is easily conceivable that you might be the owner of a piece of improved real estate, part of the purchase price being secured by a mortgage, and you regarded your interest therein as an investment. The difference between the amount of the mortgage and the price you paid or the market value of the property would be described in real estate terms as your "equity."

In a stock purchase your "equity" is commonly described as margin.

Assume that you bought 100 shares of Atchison stock at 100 through your broker. You deposited with him $1000 or 10 points margin or equity. The chances are that when he received the stock, he took it to a bank (with other securities), and borrowed 80 per cent, or $8000 of its market price in the form of a call loan. In effect the stock was mortgaged for $8000; the remaining $2000 of the purchase price was supplied by your broker, who put $1000 of his own capital, together with your $1000 margin, in order to carry the stock.

Should the price of the stock go down, say to 90, the bank will ask your broker to margin the stock to the market, that is to say, to deposit $1000 worth of stock as additional collateral, or to send a check for the equivalent of the decline reducing the face of the loan that much; and in turn your broker will request you for more margin as he must comply with the bank's demand.

Should the price of the stock advance materially, it would be possible for the broker to retire his call loan and make a new loan for a larger amount, represented by the rise in market quotations.

If you bought, say, 100 shares of Atchison at 100, your broker would receive the stock, and, as we have explained, borrow money on it. Before you sold it — in the interval of carrying — the bank loan might be called a half-dozen times. Each time the loan was called, the bank would send a formal notice to the broker requesting the return of the money. The broker would send his clerk to the bank with a certified check for the amount of the loan together with interest computed at the rate fixed when the money was borrowed. The messenger would receive, in return for the check, the securities and return them to the office. In the meantime the broker would make a fresh loan with another lender at the prevailing call loan rate of interest.

When Atchison advanced to 102 say, you decided to sell and did so, whereupon the broker either retired the loan or he requested the lending bank to permit him to substitute some other stock of equal value for the 100 shares of Atchison. If the bank agreed, the broker sent his clerk to the bank, and the bank would give him from the loan envelope the Atchison certificate and insert in its place the substituted stock. The loan would then stand until one principal or the other "called it" or "took it up."

Having received the 100 shares of Atchison from the lending bank, your broker delivered it to the buyer at 102 and received a check for $10,200. He had in the meantime credited your account with $200 profit, less the commission to buy and sell, the state tax, and the interest paid in carrying the stock from the day of purchase to the day of delivery.

In the event of a loss the same course would have been followed except that your account would have sustained a loss and deductions for interest and commissions.

While carrying the 100 shares of Atchison at 100 on a margin, it is always your privilege to take up the stock and become the actual owner by paying to your broker the difference between your margin and the cost price of the stock, which in the case of the Atchison used as an illustration would have been $9000, plus interest and commissions.

In buying stocks, cash margins are usually employed, but it often happens that stocks and bonds are deposited as margins.

The smallest fraction employed in trading in the New York market is ⅛ of 1 per cent or $12.50 on each 100 shares.

Fractional profits or losses are as follows: —

100 shares	⅛ per cent	$12.50
100 shares	¼ per cent	25.00
100 shares	⅜ per cent	37.50
100 shares	½ per cent	50.00
100 shares	⅝ per cent	62.50
100 shares	¾ per cent	75.00
100 shares	⅞ per cent	87.50
100 shares	1 per cent	100.00
100 shares	5 per cent	500.00
100 shares	25 per cent	2500.00

In a complete transaction involving a purchase and sale in the New York markets, there is also to be considered a $2 stamp tax imposed by the State of New York on the sale.

The par value of stocks traded in is usually $100; but there are exceptions known as "half stocks" which have a par value of $50. Notable illustrations are Pennsylvania, Reading, and Lackawanna. In trading, however, it is the custom to buy 200 shares of a half stock, which would be equivalent to the usual 100 shares of "full" or $100 a share stocks.

All stocks and bonds (railroads and industrials) are quoted at a percentage of par or 100. This statement, however, does not apply to mining stocks dealt in on the Consolidated Stock Exchange.

CHAPTER XX

The Mechanism of a Complete Bear Trade

On the various exchanges the bear operation, otherwise known as the short sale, as distinguished from the bull operation, or long purchase, is regarded as a very simple and easily understood transaction. But among outsiders and occasional traders the machinery and theory of a bear operation are completely wrapped in mystery. How can one sell what one does not own? is a question that the uninitiated frequently ask, and after the broker's explanation, the inquirer often confesses that he is as much in the dark as ever. While it is true that this particular transaction is somewhat complicated, it is equally true that there is nothing mysterious about its mechanism or the general theory upon which it is based.

The counterpart of the bear operation in stocks is to be found in almost every commercial field. Thus, if you are a manufacturer of cotton cloth, you might contract in January for the delivery in July of a quantity of manufactured goods. You might reasonably not have in your possession at the time of making the contract the raw cotton that would be required to fill the order. Until such time as you bought the raw cotton in the market you would be short of the raw cotton which you had contracted to deliver in the form of manufactured goods.

Under the circumstances, though, you would not necessarily be a bear on raw cotton.

A bear is always a believer in declining prices as distinguished from a bull who believes in advancing prices. If, then, as a cotton manufacturer, when contracting in January to deliver the cotton goods in July you did not actually own the raw cotton or hold contracts for its future delivery, it might reasonably be supposed that you had not bought the raw cotton because you thought that its price would be cheaper in February than it was in January. Suppose, then, that the price of raw cotton did decline — your judgment having proved to be accurate — and on February 15 you bought your cotton two cents per pound cheaper than the market price on January 1. It would follow, therefore, that between January 1 and February 15 you were short of cotton on a contract to deliver in the future, and also that you were a bear and a believer in lower prices. You sold that which you did not own, but your credit and your contract were known in the cotton trade to be good, and the buyer of the finished goods had no hesitation in accepting your contract even if he knew that you did not actually have in your possession the raw cotton that would be required to fill the order.

Carried further, the jobber who contracted with you for the manufactured goods in January to be delivered in July might in the same month (January) sell from samples the manufactured goods to his customers, contracting to make deliveries in August. Technically he would be short of the goods, but he would be protected by your contract to deliver. If in July, you, as the manufacturer, failed to deliver the goods, and were in default, the jobber could sue you, and recover damages. Substantially the same conditions govern the bear operation, or the short sales in the stock market. The seller of that which he does not own knows that he can always seek the open market and *buy in* the stock that he has already sold. That part of the contract which is puzzling to the outsider has to do with the bridging over of the contract between the time of the sale and the purchase of the bear or short commitment. The rules and usages of the exchanges provide for all the contingencies that may arise.

Assume again that you are interested in the stock market as a trader. On January 1, you had reason to believe, that, say, Union Pacific would decline from about 150 to 140 before February 1. Accordingly you proceed to your stock broker and say: "Sell short for my account 100 shares of Union Pacific at 150."

Your broker executes your order protected by your margin of, say, 10 per cent or $1000. (Margins vary in amount.) To execute the order he proceeds to the Union Pacific post on the floor of the Exchange and sells to the first bidder 100 shares of Union Pacific, say at 150⅜.

This order is executed, say, at one o'clock. The stock must be delivered to the buyer the next day, January 2. Your broker does not hold the stock in his possession, but sometime between 1 o'clock on January 1, and 2.15 P.M. on January 2, your broker proceeds to the "loan crowd" on the Exchange floor and borrows 100 Union Pacific from a broker who wishes to lend the stock at, say, 150, that being the nearest even price to the closing sale.

It will probably be asked here why any one should wish to lend that stock? The answer is that 100 shares of Union Pacific at 150, represents $15,000 and to hold the stock idle in the office means that the broker ties up $15,000.[1] To borrow 80 per cent or $12,000 of its market value from a bank would cost interest at the rate of, say, 2 to 6 per cent per annum.

In order then to avoid keeping $15,000 in idleness or borrowing a part of that amount from a bank at the maximum call loan rate of interest, the lending broker proceeds to the loan crowd and finds your broker to whom he lends the stock.

The borrower, your broker, makes certain concessions for the accommodation to the lender. In the first place, as soon as the lender delivers the stock, the borrower pays him the *full market price*, $15,000, and in the second, he (the borrower) "takes up the stock" and only charges possibly 2 per cent for the use of the money, whereas the bank might have charged 4 or more and only loaned 80 per cent of the market price, reserving 20 per cent as the margin of safety in accordance with approved banking customs.[2] This interest charge is exacted by your broker

[1] Commission stock brokers use a great deal more money than the amount of their capital. With $100,000 cash capital and 20 per cent customers' margins a stock broker can carry $1,000,000 of stocks.

[2] In lending second class collateral, say speculative industrials, the advantage is even greater for the lender. The bank may be willing to lend only 60 per cent of the market price, while if the stock is active and in demand, the borrower of the stock who needs it to fill a bear or short contract will be willing to advance the market price and possibly the rate of interest may be 1 per cent or even lower.

who is the lender of the money, and who is also the borrower of the stock.

Accordingly your broker having borrowed and received the stock, he, in keeping with the Exchange rules, delivers the stock certificate to the original buyer at 150⅜ and receives a check for $15,037.50 The stock has become the property of the original buyer in the transaction.

You and your broker — the two principals in the bear or short transaction — are short of 100 shares of Union Pacific, and you, believing that the stock will decline, have become in fact a bear.

On January 15 you find that Union Pacific has declined to 140¼. Again you proceed to your broker and this time you say: "Buy (or cover) for my account 100 Union Pacific at 140¼." Your broker does so. Having done so, he sends formal written notification to the broker from whom he borrowed 100 Union Pacific at 150, that he will return the stock on January 16.

On January 16, your broker receives from the seller the stock bought at 140¼, giving therefor his check for $14,025. On the same day he returns the borrowed stock and receives back, in exchange, a check for the original $15,000, together with interest at the rate exacted and computed from the date of the loan to the time of its cancellation or return.

Your broker credits your account with a profit of $1012.50 less the usual commission for buying and selling, and the state tax on the sale.

The custom in the matter of interest on bear or short accounts is for the broker to retain the interest, except when the account is a very large and profitable one, when the interest may be divided between customer and broker.

Should, on the other hand, the stock borrowed lend at a premium, you are obliged to pay the premium. (This is explained in another paragraph.)

One reason why the stock broker retains the interest on a short transaction is that during the interval covered by the bear operation he may be obliged to borrow the stock a half dozen times. The lender of stock always has the right to demand the return of his stock, when the broker who is short is obliged to reënter the loan crowd and reborrow the stock from a new lender.

If, however, your Union Pacific venture had been unfortunate, and the stock had advanced to 160 on January 15, it may have been your desire to buy in (or cover) the stock at that price, when your broker would have deducted from your account the loss, \$1000, plus commissions, and the amount of the loss would find its way to the credit of the principals to the purchase-and-sale contracts on the Exchange.

Again, it is within the bounds of possibility, although so unusual in an active stock as to be hardly worthy of consideration, that Union Pacific is in very active demand in the loan crowd and lends at a "premium." This would mean that instead of your broker receiving interest on the borrowed stock he would be obliged to pay a "premium" to obtain it in order to make good his delivery.

This premium might be $\frac{1}{8}$ of 1 per cent a day, which would mean that your account would be charged \$12.50 a day in order to borrow 100 shares of short stock. If the stock had been cornered, it would be among the possibilities (as in the Northern Pacific corner, May 9, 1901) that you might have to pay 2 per cent premium or $200 a day for the use of the stock. This contingency at times makes the bear operation a very hazardous one, although, speaking generally, premiums are very unusual.

When loaned stocks command a premium, the lender of the stock receives the premium instead of paying the interest usually exacted from him by the borrower.

And, again, it may be that there is a demand for Union Pacific in the loan crowd. Many other traders, like yourself, believe that Union Pacific will decline, and have also sold it short. In that event the number of borrowers may evenly balance the number of lenders when the stock will lend "flat" which means that there is no interest or premium charge, the borrower of the stock not receiving and the lender not paying interest. In this case it is obvious that the lender of the stock has the use of its equivalent market money value, without interest, thus profiting to that extent by the necessities of the bears.

It is also a rule of bear or short operations in stocks that the borrower of the stock must pay during the interval in which he is short any dividends that may accrue on the stock. Those dividends are paid to the broker lending the stock, who credits them to the account of the owner of the certificate.

If then, while you are short of a particular stock the company declares a 3 per cent dividend and the transfer books close for the dividend while your commitment is open, your broker debits your account 3 per cent or $300 on each 100 shares; but of course the morning that the stock opens ex-dividend, it is worth exactly the amount of the dividend less than it was the night before, and opens that much lower, subject, of course, to market fluctuations, so the short can cover that much cheaper. If you are long, you are credited with the dividend.

The above bear transactions are based on the fundamental operation when the stock is received and delivered independent of the clearing house. The trader wishes to know, however, how the clearing house handles a bear transaction and for his benefit a complete bear trade is carried out in the three following clearing-house sheets:—

FEBRUARY 10

Received from			Price	Amount	Delivered to			Price	Amount
Borrowed from Jones	100	U.P.	150	$15,000.00	Smith	100	U.P.	$150\frac{3}{8}$	$15,087.50
To balance				87.50					
				$15,087.50					$15,087.50

It will be noted that on February 10, the owner of the sheet sold 100 Union Pacific at $150\frac{3}{8}$ and the same day borrowed 100 Union Pacific, the clearing house fixing the settling price at the nearest even point to the closing sale.

The next step in this transaction occurred eight days later as the following clearing-house sheet shows:—

FEBRUARY 18

Received from			Price	Amount	Delivered to			Price	Amount
Borrowed from Brown .	100	U.P.	146	$14,600.00	Returned to Jones	100	U.P.	150	15,000.00*
To balance				400.00					
				$15,000.00					$15,000.00

* Interest omitted to simplify explanation.

On February 18, according to the clearing-house sheet the owner of the sheet decided to return to Jones, the lender, or Jones, the lender, decided to recall 100 Union Pacific. As the short contract is still outstanding the owner of the sheet proceeded to Brown and made a new loan, borrowing 100 Union Pacific. In the meantime the market has declined and the clearing-house settling price is 146. The stock borrowed from Jones is, of course, returned at the original loaning price of 150, and as the contract is marked down to the market the account of the owner of the sheet is credited with a balance of $400 — the difference between 150 and 146.

On March 10 the short contract in Union Pacific is closed out as the following clearing-house sheet shows: —

MARCH 10

Received from			Price	Amount	Delivered to			Price	Amount
Bought from Robinson	100	U.P.	140¼	$14,025.00	Returned to Brown	100	U.P.	146	14,600.00*
To balance				575.00					
				$14,600.00					$14,600.00

* Interest omitted to simplify explanation.

This shows that on March 10 the owner of the sheet bought in the open market 100 Union Pacific at 140½, whereupon he notified Brown that he would return to him the 100 shares of Union Pacific that he had borrowed on February 18, at 146.

Accordingly he did so, Brown accepting delivery which left the owner of the sheet with a further credit balance of \$575. As the stock declined from 150⅝ — the original selling price — to 140½, the closing out price, the owner of the sheet was credited with the gross profit of 10⅛ points, in three separate credit balance installments of \$37.50, \$400, and \$575, or \$1012.50, plus the interest paid by Jones and by Brown.

The owner of the sheet made the selling and the buying prices — the clearing house made the intermediate settling prices based on the fluctuations of the market.

CHAPTER XXI

A Glossary of Stock Market Terms

Account of sales. A statement of transactions rendered to a customer by his broker.

Assessable stock. A stock that can be assessed, and distinguished from non-assessable stock.

Assessment. A call or demand from a corporation to its stockholders, requesting the latter to pay a specified sum per share into the treasury for the purpose of financing the work, debts, or reorganization of the company.

Averaging out. Trading progressively on an increasing system. To buy on a scale down, as, for instance, purchasing Southern Railway Common at 30, 29, and 28 and selling out the lot on a recovery to 29 so that the buyer would average out even.

Backwardation. A London term signifying the amount or premium paid for delay in delivering stocks.

Balance. The amount required to equalize the debit and credit sides of an account.

Ballooning. To manipulate a stock to a price beyond its actual value, accompanying the manipulation with an active speculation.

Bank clearings. The total amount of checks and drafts exchanged by banks in their clearing-house dealings; a basis for calculating the relative volume of trade.

Bank statement. A weekly statement (issued in New York at 11:30 A.M., every Saturday), showing the condition of the banks, and used as a guide in indicating the tendencies of money market rates.

Bear. A trader or speculator who believes in or operates for declining prices.

Bear panic. A sharp rise resulting from an oversold market or a corner which causes a precipitate retreat by bear traders who buy back their short commitments at heavy losses.

Black Friday. September 24, 1869.

Block. Usually used in signifying a larger number of shares. Thus: "So-and-so sold a block of 10,000 St. Paul."

Board room. The Exchange room.

Bond. An interest-bearing debt certificate issued by a government, municipality, or corporation.

Books close. The advertised day prior to the payment of a dividend on which the transfer books of a corporation close. On the day the books close the stock sells ex-dividend (or without the dividend.)

Books open. The day on which the transfer books of a corporation are reopened. In the interval between closing and opening stocks cannot be transferred.

Break. A severe decline.

Bulge. A sharp advance of moderate proportions.

Bull. One who believes in or operates for rising prices.

Buy, or sell, at the opening. To trade at the market price as soon as the Exchange opens.

Buyer's option. A trade in which the buyer has the option of calling stock bought within an interval specified in the terms of sale.

Buying on a scale. Buying at regular intervals. To buy Southern Railway at 34, 32, 30, 28, 26, and so on would be buying on a 2 per cent declining scale.

Buying outright. To pay cash in full for what securities you buy.

Call loan. Money lent on security collateral subject to the call of the lender.

Carrying charges. Interest paid by buyers for carrying stock.

Carrying stock. To buy and hold stock.

Cash. To buy or sell for "cash" on the exchanges means that the stock sold must be delivered on the day of sale.

Cats and dogs. Worthless securities.

Certified check. A check on the face of which is written the signature of the bank teller or cashier who thereby certifies that funds are on deposit with which to pay the check and that they will be set aside for that purpose.

Chasing ⅛'s and ¼'s. Scalping for fractional profits.

Clique. A combination of stock operators.

Coalers. The anthracite and bituminous coal railroads.

Collaterals. Stocks given as security when money is borrowed.

Commissions. The brokerage fees for buying and selling.

Commitment. Contract; market engagement or undertaking.

Comparison. A comparison by buyer and seller of a market purchase and sale.

Consols. An abbreviation of "consolidated"; consols represent the consolidation of the bonded debt of Great Britain, and they make the leading English funded government security. They pay $2\frac{3}{4}$ per cent.

Contango. A London term signifying the rate of interest paid for carrying shares from one settlement day to another.

Coppers. Copper mining stocks.

Corner. When more stock of a corporation is sold on contract than is in existence or can be delivered, a corner may result. In the event of a manipulated corner in a particular stock the effort is made to force an abnormally high price and force the bears to cover.

Coupon. In Wall Street they are interest obligations, attached to bonds in printed ticket form, and cut off as they mature.

Cover. The seller's operation of buying back that which he has sold short is known as "covering."

Deal. A combination of men working in harmony in stock-market manipulation may be said to be engaged in a "deal."

Default. Failure to pay that which is due.

Discretionary pool. A number of men agree to manipulate a stock and leave the manipulation to the discretion of one or more members.

Dividends. Interest returns on investments.

Drive. An attempt to force prices down.

Drop. A decline in the market.

E. E. Errors excepted.

E. & O. E. Errors and omissions excepted.

Exhaust price. The point at which margins are exhausted.

Fancy stocks. New and untried stocks quoted at high prices.

Fiscal year. The financial year of a particular business.

Flat. Without interest.

Flurry. A sudden and severe decline.

Flyer and *For a turn.* Trading for a quick profit or loss.

Good delivery. Securities acceptable to buyers under recognized rules; opposite of *Bad Delivery.*

Gould stocks. Stocks of corporations dominated by the family of the late Jay Gould.

Grangers. Western railroads traversing agricultural states.

Guaranteed stock. Leased roads often have their dividends guaranteed by the lessee.

Hard spot. A strong stock in an otherwise weak market.

Hedge. To endeavor to reduce one's contracts in the effort to lessen a real or possible loss is "hedging."

Holding the market. Manipulation in the effort to sustain prices.

Hypothecate. To use collaterals for loans.

Industrials. The stocks of industrial corporations based on manufactures.

Insiders. The controlling and directing interests.

Lamb. A novice.

Limit. In limiting profits and losses a limit price is named in the order.

Liquidating market. Usually a declining market in which holders of long stocks close out their contracts.

Long. A buyer of stocks for a rise is long.

Margin. The cash deposited by a customer with his broker to secure commitments.

Northern Pacific corner. May 9, 1901.

Overbought. More marginal buying than is justified by conditions.

Oversold. More selling than is justified by conditions.

Paper profits. Profits that have not been realized on contracts that remain open.

Par. The face or full value.

Pass a dividend. When a dividend is not paid.

Plunger. A speculator who takes chances of large profits and losses on limited capital.

Point. In stocks 1 point is $1 a share.

Pointer. A tip.

Pounding. Selling stocks in the effort to force a decline.

Professional. The man who makes a business of stock trading.

P. T. Private terms.

Pyramiding. Expanding one's operations with paper profits on an advancing scale.

Rebate. The return of part of an amount paid for commissions or transportation.

Receiver's certificates. Usually issued by a receiver for the purpose of raising money for a corporation in financial difficulties. When issued, they constitute a first lien upon the net earnings and property of the corporation.

Recovery. A rally in prices after a decline.

Refunding. To replace by a new loan.

Regular way. The usual term of sale employed by brokers in buying and selling, signifying that the stock sold is to be delivered the following day.

Rigging the market. Manipulation of stocks by insiders.

Saddling the market. To unload a particular stock.

Scalper. A professional trader for small profits.

Scrip. A scrip certificate possesses no voting or dividend rights, but certifies that by itself, or collectively when combined with other scrip certificates, the holder is entitled to receive shares, bonds, interest, or dividends.

Seller's option. When the seller has the right to deliver stock on contract at his option. "Seller sixty" would signify that the seller had the right to deliver the stock sold within sixty days, when the contract would mature.

Sell out a man. To dispose of stocks when a speculator has not made good his margins.

Shifting loans. When banks call loans and brokers pay them off and renew them with other banks, the process is "shifting loans."

Short interest. The total amount represented by short or bear contracts.

Short market. A bear market; or an oversold market.

Short selling. Selling by bears.

Sick market. Following a heavy decline or overspeculation for the rise the market is often described as looking sick.

Sinking fund. A fund set aside for the redemption of debts.

Slump. A severe and unexpected decline.

Soft spot. A weak point in the market.

Specialist. A broker who deals in one stock or a particular group of stocks.

Speculation. In stocks, a venture of limited duration in expectation of considerable gain.

Squeezed. When shorts violently bid up prices and the rise is assisted by skillful manipulation, the bears are said to have been squeezed.

Stock. Certificates issued by a corporation, legally certifying to ownership of a certain number of shares in the corporation.

Stop order. An order which is to be executed at the market when price mentioned is reached. Buyers and sellers often place such orders, saying: —

"Stop my loss (or profit) at 118." When the stock sells at 118, the stop order becomes operative and the broker proceeds to execute the order at the best price obtainable.

Straddle. A speculator who is long of one stock and short of another has straddled the market.

Swimming market. A buoyant, rising market.

Syndicate. A combination of business men having a common business object.

Tailer. A small trader who tails on a bull or bear movement.

Ticker. The Wall Street name for a stock indicator which prints quotations.

Tip. Usually gratuitous advice on the course of the market or a special stock.

Tired market. After a forced advance and buying orders are exhausted the market often looks tired; or following an excess of manipulation, the market becomes tired.

To buy in. Buying stock to cover a short contract.

Twisting the shorts. A sudden rise that has forced the bears to cover at a heavy aggregate loss is the process known as "twisting the shorts."

Under the rule. When a member of an exchange is in default on any of his contracts, the stock contracts in which he is a principal are traded in for his account "under the rule," of the Exchange providing for this contingency. The delinquent member is charged with any differences in prices that may be established by the chairman of the exchange in trading for his account.

Undertone. Used in designating the underlying strength or weakness of markets.

Underwriting syndicate. A syndicate composed of a group of bankers or capitalists or both who agree to buy all of a particular issue of stock or bonds at a specified price.

Unloading. Selling out.

Upset price. The lowest selling price.

Vanderbilts. Railroads controlled by the Vanderbilt family and its allies.

Wash sales. Fictitious transactions at an agreed price; similar to "matched orders."

Watered stock. An increase in capital stock with no corresponding increase in assets.

Whipsawed. Making a double loss by shifting position in the market. Illustration: Buying at 20, selling out at 18, and going short at 18, after which the market advances and a second loss is sustained.

Wide opening. When a stock opens with running sales from 90 to 90$\frac{5}{8}$, that would be a "wide opening" as distinguished from the usual orderly opening with sales at one price.

Nelson

Consolidated stock exchange of New York